

FY 2000 ANNUAL REPORT

FY 2000 ANNUAL FINANCIAL STATEMENTS

SECTION IV

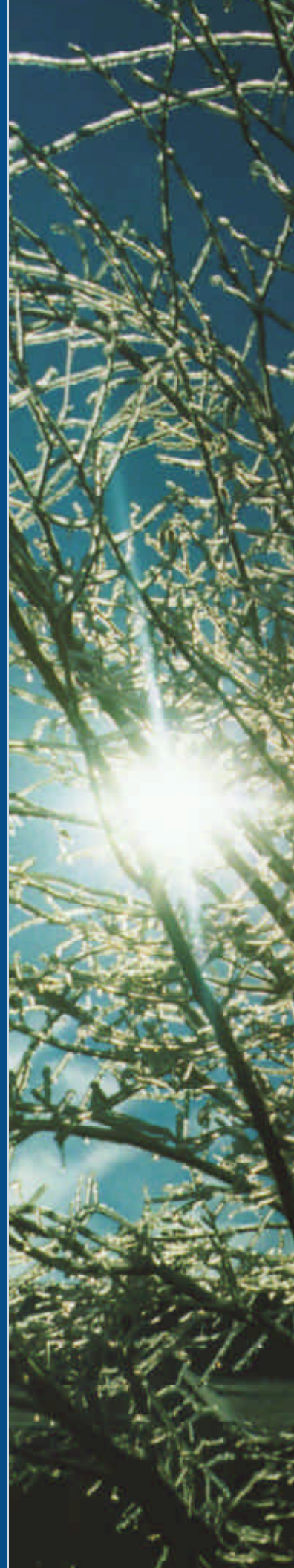


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MESSAGE FROM THE DEPUTY CHIEF FINANCIAL OFFICER

I am pleased to present the fiscal year (FY) 2000 audited financial statements of the Environmental Protection Agency (EPA). This year the statements are presented for the first time as an integral part of our Annual Report. As such, they offer Congress and the public a clear and comprehensive picture of the Agency's progress over the past year under a single comprehensive document. This year's financial statements provide strong evidence of EPA's commitment to effective management of its resources and finances. In addition, they portray progress toward the Office of the Chief Financial Officer's (OCFO) goal of providing better and more timely cost information and reporting, thereby allowing EPA's program offices to more efficiently accomplish their environmental and public health protection mission.

EPA has achieved an unqualified opinion on its financial statements this year, an important accomplishment and testimony to the diligent work of the finance community in addressing several financial weaknesses noted in our prior year statements. An unqualified opinion conveys an important message about sound financial management within an organization. It reflects that EPA has improved its methods, processes and systems for recording and reporting financial information to the extent that it fairly presents and characterizes the Agency's financial position, a significant issue for Congress, the public and our stakeholders.

During FY 2000, the OCFO made significant progress on a number of important management initiatives. In the area of results-based management, we issued EPA's revised Strategic Plan for FY 2000-2005, which lays out the Agency's long-term goals, guides us in establishing annual goals, allows us to measure progress in achieving our goals, and provides a basis from which Agency managers can focus resources on the highest priority environmental issues. We also issued our first Annual Performance Report, providing Congress and the public with a comprehensive, plain-English account of Agency performance. In the cost accounting arena, we established a new indirect cost accounting methodology which substantially boosts the amount of Superfund cleanup costs we can expect to recover from Responsible Parties. In the budget area, we streamlined our process for managing Trust Fund carryover funds: by making these resources immediately available to program managers for important environmental projects, we not only reduced administrative burden, but also strengthened accountability.

The OCFO also made great strides in improving the security of its financial management systems as a result of numerous independent reviews. We established an OCFO Information Security Council to provide direction and oversight to these efforts and began vulnerability and risk assessments of our critical systems. The rapidly changing and complex environment associated with systems security will require constant and long term vigilance to protect against intruders.

Over the past year, we also made substantial progress in planning an orderly replacement of our legacy systems with more modern and integrated financial systems. We completed the evaluation for replacing our aging payroll system and created a centralized staff to oversee the planning and integration of our critical systems. In addition, the OCFO moved to modernize the Agency's financial reporting tools by adopting a new, user-friendly Financial Data Warehouse. These systems efforts, along with our on-going automation initiatives in travel, grants and vendor payments, go a long way toward ensuring sound stewardship, optimal leveraging of resources, and the integrity of our critical data. The ultimate benefit for our program managers and stakeholders will be better, faster, and easier to use financial data, cost information and reporting tools to support day-to-day decision-making needs as well as long range planning efforts.

Many challenges lie ahead as we enter a new era of public stewardship and accountability. For example, our systems modernization efforts have just begun. While we anticipate our payroll replacement efforts will move along substantially this year, the groundwork for replacing our core financial management system has only recently gotten underway. We also look forward to improving our cost accounting processes by capturing and reporting additional financial information to better serve the needs of EPA's program managers.

I would like to express my thanks to all the people who helped EPA obtain its unqualified opinion on the financial statements. Such an achievement requires a tremendous effort from individuals at all levels of the organization. The preparation and presentation of fairly presented and timely financial statements is dependent on the day-to-day effort of countless individuals. Whether they carefully record and monitor transactions, oversee budget execution, operate our financial systems, develop accounting policies, provide financial analysis or audit our statements, we owe a debt of gratitude to them all. The preparation of EPA's financial statements has been a collaborative effort among many organizations -- the OCFO, the Office of the Inspector General, and EPA's many program, regional and administrative offices. I want to acknowledge the hard work and commitment of all the employees throughout the Agency who contributed to this effort.

I believe we have established a stable, yet dynamic, environment for implementing sound financial management within EPA. We intend to enhance and build upon this solid foundation. As we work toward forging stronger partnerships with our stakeholders and developing innovative and market-based approaches to improving our protection of the environment and the public health of all Americans, accurate, timely and useful financial information becomes critical to our success. We are committed to maintaining high standards as we face the challenges associated with modernizing and continually improving our financial and management systems and processes.

A handwritten signature in black ink, reading "Michael W.S. Ryan". The signature is stylized, with the first name "Michael" written in a cursive script, followed by "W.S." in a more formal, blocky style, and "Ryan" in a cursive script. A long, sweeping horizontal line extends from the end of the signature.

Michael W.S. Ryan
Deputy Chief Financial Officer

**CFO
ANALYSIS**

Chief Financial Officer's Analysis of Financial Statement Audit and Summary of FY 2000 Accomplishments

Summary of Auditor's Report and Opinions

The Agency prepared the following FY 2000 Financial Statements: Statement of Financial Position (Balance Sheet), Statement of Changes in Net Position, Statement of Net Cost, Statement of Budgetary Resources, Statement of Financing, and Statement of Custodial Activity. Each of these statements was broken out between the Superfund appropriation and all other funds. In addition, we prepared a Statement of Net Cost by Goal for each of the Agency's ten Strategic Goals.

The Office of Inspector General (OIG) stated "In our opinion, the consolidating financial statements present fairly the consolidated and individual assets, liabilities, net position, net cost, net cost by goal, changes in net position, budgetary resources, reconciliation of net cost to budgetary obligations, and custodial activity of the U.S. Environmental Protection Agency and its subsidiary funds, the Superfund Trust Fund and All Other Appropriated Funds, as of and for the year ended September 30, 2000, in accordance with generally accepted accounting principles." No material weaknesses were reported.

Report on Internal Controls

Although the OIG did not identify any material weaknesses, the audit report listed seven "reportable conditions," which are described below, along with a short statement on the Agency's position with respect to each of those items.

- ! Process for Preparing Financial Statements – The OIG recommended that the Office of the Chief Financial Officer (OCFO) continue its aggressive efforts to improve the preparation and presentation of the Agency's financial statements and to advance the time frame for completion of the statements. OCFO agrees and will continue to work closely with the OIG in making those improvements.
- ! Accounting for Capitalized Property – The OIG made eight recommendations for improving accountability over and accounting for Agency property assets. OCFO and the Office of Administration and Resources Management (OARM) have agreed with most of the OIG's recommendations and will be improving guidance, stressing quality control and performing additional followup with the offices directly responsible for property.
- ! EPA's Process for Reviewing Unliquidated Obligations – The OIG made no new recommendations and acknowledged the actions we have taken to date to monitor unliquidated obligations and to ensure they are deobligated timely when appropriate.
- ! EPA's Interagency Agreement Invoice Approval Process – The OIG made no new recommendations and recognized Agency progress in implementing corrective actions from earlier audit reports.
- ! Documentation and Approval of Journal Vouchers – The OIG recommended that appropriate OCFO staff review Agency policy and procedures on journal vouchers and ensure that vouchers are properly documented prior to approval. OCFO agrees with that action.
- ! Timely Repayment of Asbestos Loan Debt to Treasury – The OIG recommended that OCFO develop a schedule for repaying asbestos loan debt to Treasury on an annual basis and to reduce asbestos loan borrowing authority to zero. OCFO agrees to develop the recommended schedule and has already reduced borrowing authority to zero.

- ! Automated Application Processing Controls for the Integrated Financial Management System (IFMS) – The OIG made no new recommendations. The audit report summarized the history of the discussions between the OIG and OCFO on this topic and noted that in FY 2001 the OCFO will be taking steps to develop a project team to replace IFMS. OCFO believes the IFMS replacement project will address the OIG’s concerns about the adequacy of automated application controls.

Compliance with Laws and Regulations

Compliance with the Federal Financial Management Improvement Act (FFMIA)

The OIG identified only one instance where they believed the OCFO was in substantial noncompliance with the FFMIA: the OIG believes that EPA does not comply with Statement of Federal Financial Accounting Standards Number 4, also known as the Managerial Cost Accounting Standards. Specifically, OIG’s position is that EPA does not adequately: (1) determine the full cost of its activities; (2) accumulate and report the cost of activities on a regular basis for management information and other stakeholder purposes; and (3) always use appropriate costing methodologies to accumulate and assign cost to outputs.

While OCFO agrees that improvements in cost accounting can be made, OCFO believes that the Agency does comply with this Standard. A detailed discussion of this issue is provided in Section III of this Report under “Management Challenges.” We will continue to improve Agency cost accounting and will work with the OIG on these improvements.

Other Noncompliance Issues

The OIG identified two other areas where they believed the OCFO had noncompliances that were not substantial and therefore not in violation of FFMIA.

- ! The OIG noted that EPA was unable to reconcile intra-governmental transactions. However, the OIG commended EPA’s proactive approach to reconciling and acknowledged that the resolution of this issue requires Federal level action since EPA does not have control over the other federal agencies with which it must reconcile.
- ! The OIG stated that EPA’s financial system security plans continued to be noncompliant, although they recognized that progress had been made. They also reported that they had determined that the Agency Remediation Plan, submitted to the Office of Management and Budget (OMB) on November 13, 2000, sufficiently addressed their prior concerns.

The OIG also noted that EPA is not complying with appropriation law when making disbursements for grants funded with more than one appropriation. However, this issue does not affect the audit opinion on the financial statements.

Progress in Correcting Previously Identified Problems

OCFO management undertook a concerted effort to resolve a backlog of audit issues raised in previous years. Consequently, issues such as financial statement preparation (discussed in the next section) and accounts receivable have been resolved or downgraded as major issues. The OIG has accepted all of the OCFO’s proposed corrective actions raised in the FY 1998 and 1999 financial statement audits (except for cost accounting as noted above). The Agency has not encountered any significant impediments to correcting problems. One specific challenge for 2001 is the need to revise the methodology for determining accrued grant expenses.

OCFO Accomplishments

Planning, Analysis and Accountability

Revised Strategic Plan. Working with the rest of the Agency, OCFO developed and issued EPA's revised Strategic Plan for FY 2000-2005. The Strategic Plan lays out the Agency's ten long-term goals and guides us in establishing annual goals, allows us to measure how far we have come towards achieving our goals, and provides a basis from which Agency managers can focus resources on the highest priority environmental issues and ensure that we use taxpayer dollars effectively to achieve environmental results.

Annual Performance Report. In FY 2000, EPA completed its first full planning and accountability cycle under the Government Performance and Results Act (GPRA) with the March 2000 submission of its first Annual Performance Report. The Report presents to Congress and the public a comprehensive, plain-English account of EPA's FY 1999 performance.

Results-Based Management. The Deputy Administrator met with senior Agency managers in a series of meetings to discuss FY 1999 results and lessons learned, mid-year performance toward FY 2000 annual performance goals, progress toward long-term strategic goals, and work under way to improve performance measurement. Senior managers also discussed the broader lessons learned from the Agency's experience with GPRA implementation to date and improvements to be made for the future. In addition, to promote development of more outcome-oriented performance goals and measures, OCFO provided training workshops, technical assistance, and feedback on GPRA products to Agency managers and staff. The FY 2001 Annual Performance Plan had 5% more outcome-based goals than the FY 1999 Annual Performance Plan.

Improving Agency Management. EPA has made substantial progress toward resolving programmatic and administrative issues that have the potential to affect the Agency's ability to achieve its mission. Since 1990, EPA has corrected 27 integrity weaknesses and numerous major management challenges. In addition, EPA made significant progress in reducing the number of audits without final action as well as strengthening its audit management practices Agency-wide. In FY 2000, EPA reduced the number of audits without final action after 1 year by 35 percent and was responsible for addressing OIG recommendations and tracking follow-up activities on 503 audits.

Audited Financial Statements

EPA made substantial progress this year in preparing quality financial statements in a timely manner. The improvements made this year are phase one of a two-phased plan for improving the Agency's financial statement process. Our efforts began with completing a data integrity evaluation of our financial system by: (1) analyzing each accounting transaction to ensure all entries are proper; (2) conducting general ledger account analyses to identify accounts with incorrect balances; and (3) analyzing account relationships between proprietary and budgetary accounts.

The Agency also implemented a new policy document and supplemental procedural guidance on preparing and submitting annual audited financial statements in coordination with the OIG. This guidance established a formal process to monitor timelines for preparing annual financial statements as well as addressing audit questions and adjustments. In addition, guidance was implemented to establish more timely, accurate, and reliable reporting on EPA's trading partners.

Finally, the Agency successfully implemented an automated FACTS II process in its financial system and successfully submitted its budgetary reports electronically to Treasury via FACTS II.

We believe that the above and future efforts will continue to enhance the Agency's ability to prepare and publish complete, concise, understandable and meaningful information about the financial and operating performance of the Agency.

Streamlining Business Processes and Meeting Customer Needs

EPA took a number of steps to streamline and automate the Agency's administrative systems to provide the best services with reduced burden to our customers. For example, Agency grant recipients are beginning to benefit directly from a new system that allows them to request their funds on-line, and EPA is automating the entire travel reimbursement process, a significant reduction in administrative burden. EPA earned Governmentwide recognition for its efforts, along with several other agencies, to implement an on-line system that allows employees to view and update many payroll and benefits options such as health plan choices. The Agency also made substantial progress in replacing its aging payroll system, and efforts are now under way to replace the Integrated Financial Management System. Finally, EPA developed a financial data warehouse to improve Agency access to a range of financial and program data in order to better manage programs.

Systems Integration and Security

Integration of Systems Implementation Project. The Deputy CFO created a new Systems Planning and Integration Staff (SPIS) within the Office of the Comptroller's (OC) immediate office in response to several existing and emerging challenges with systems initiatives. These initiatives include improving financial performance through better financial management systems and providing the Agency with resource systems, policies, and support necessary to carry out resource management responsibilities. SPIS will provide OCFO with a centralized focus for planning, budgeting, integrating, and implementing OC financial systems.

The initial focus of SPIS is on replacing the Agency's payroll system, EPA's Personnel and Payroll System (EPAYS), and its supporting systems, and on assessing the need to replace or modernize the Agency's core financial management system, the Integrated Financial Management System (IFMS). In addition, SPIS will undertake a number of smaller projects where targeted technology changes create opportunities for improved services and streamlined processes.

Financial System Security. EPA's Deputy CFO established the OCFO Information Security Council to: (1) provide direction and oversight to financial and mixed system security efforts; (2) raise significant financial information security issues; (3) ensure coordination with other Agency offices; and (4) support proper security practices. In addition, OCFO conducted, in partnership with the Office of Environmental Information and the Office of Administration and Resources Management, Technical Vulnerability Assessments (TVAs) on the Agency's most critical financial systems.

Working Capital Fund

EPA's Office of Administration provides postage services and the Office of Technology, Operations, and Planning (OTOP) provides Agency wide services for telecommunications, mainframe computer services, and other Information Technology support. Since FY 1997, these activities have been financed by charges to Agency customers through a Working Capital Fund (WCF). The WCF undertook a number of initiatives to strengthen the overall operation and reporting of the Fund in our on-going efforts to provide quality services at competitive prices.

A WCF Review Team was assembled on behalf of the WCF Board of Directors to review and analyze the business, financial, accounting, and budget practices of the WCF Activities, as well as the cost and rates associated with the services provided. As a result, the Service Providers have been able to better align their costs with the services they support, resulting in equitable rates for the services provided.

When the WCF was established and began operations in 1997, one of the primary business principles was to recover full operating costs through the Fund's billing rates. However, in the past, EPA has not recovered certain required costs such as rent, utilities, etc. During FY 2000, OCFO established a policy requiring the recovery of full costs and the Agency is now recovering full cost in the Fund.

A team was commissioned to reconcile the OTOP's property records and to establish up-dated policies and procedures to accurately account for WCF property. As a result of this review, the WCF can now better identify capital equipment and property and compute precise depreciation costs for inclusion in the service rates.

Debt Management

During FY 2000, the Agency pursued various initiatives to improve its management and collection of outstanding accounts receivable in the Superfund program where the vast majority of the Agency's outstanding receivables reside.

Together with the Office of Enforcement and Compliance Assurance (OECA) and the OIG, accounts receivable management reviews were conducted in three of EPA's regional offices, with three more planned for FY2001. The reviews helped identify issues whose resolution will improve accounts receivable management. One such area was the need for additional policy and guidance for overdue debts. In response, OCFO and OECA issued guidance addressing the referral of overdue Superfund accounts receivable to the Department of Justice (DOJ). The EPA offices are currently working with DOJ to finalize policies for final disposition of Superfund debts.

Workforce Assessment

In the coming years, the most critical challenge facing OCFO management is to ensure that our most important asset, our staff, is well-placed to meet the challenges of the future. Changing technology and other factors are presaging a shift in the nature of work performed by OCFO staff, a shift from financial transaction-based processing to information management and analysis. In conjunction with the Agency wide workforce planning and assessment efforts described previously in this Annual Report, OCFO has completed the first phase of an assessment that formally sets out strategies for training, recruitment, and deployment of OCFO's human resources.

**PRINCIPAL
FINANCIAL
STATEMENTS**

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Environmental Protection Agency
Consolidating Balance Sheet
As of September 30, 2000
(Dollars in Thousands)

	Superfund Trust Fund	All Others	Combined Totals	Intra-agency Eliminations	Consolidated Totals
ASSETS					
Intragovernmental:					
Fund Balance with Treasury (Note 2)	\$ 37,397	\$ 11,059,256	\$ 11,096,653	\$ 0	\$ 11,096,653
Investments (Note 4)	3,960,313	1,593,357	5,553,670	0	5,553,670
Accounts Receivable, Net (Note 5)	40,671	34,371	75,042	(4,191)	70,851
Other (Note 6)	<u>21,789</u>	<u>7,452</u>	<u>29,241</u>	<u>(6,510)</u>	<u>22,731</u>
Total Intragovernmental	4,060,170	12,694,436	16,754,606	(10,701)	16,743,905
Accounts Receivable, Net (Note 5)	617,039	87,895	704,934	0	704,934
Loans Receivables, Net - Non Federal (Note 7)	0	89,128	89,128	0	89,128
Cash (Note 3)	0	48	48	0	48
Inventory and Property Received in Settlement, Net (Note 8)	5,086	347	5,433	0	5,433
General Property, Plant and Equipment, Net (Note 9)	13,581	473,028	486,609	0	486,609
Other (Note 6)	<u>750</u>	<u>1,712</u>	<u>2,462</u>	<u>0</u>	<u>2,462</u>
Total Assets	<u>\$ 4,696,626</u>	<u>\$ 13,346,594</u>	<u>\$ 18,043,220</u>	<u>\$ (10,701)</u>	<u>\$ 18,032,519</u>
LIABILITIES					
Intragovernmental:					
Accounts Payable	\$ 75,467	\$ 1,506	\$ 76,973	\$ 0	\$ 76,973
Debt (Note 10)	0	37,922	37,922	0	37,922
Accrued Liabilities	51,748	50,580	102,328	(4,191)	98,137
Custodial Liability (Note 11)	0	102,469	102,469	0	102,469
Other (Note 12)	<u>8,848</u>	<u>28,849</u>	<u>37,697</u>	<u>(6,510)</u>	<u>31,187</u>
Total Intragovernmental	136,063	221,326	357,389	(10,701)	346,688
Accounts Payable	46,066	84,956	131,022	0	131,022
Pensions and Other Actuarial Liabilities (Note 14)	6,637	27,036	33,673	0	33,673
Environmental Cleanup Costs (Note 20)	0	15,499	15,499	0	15,499
Accrued Liabilities	145,358	631,909	777,267	0	777,267
Cashout Advances and Deferrals, Superfund (Note 15)	372,586	0	372,586	0	372,586
Commitments and Contingencies (Note 18)	5,000	2,950	7,950	0	7,950
Other (Note 12)	<u>63,024</u>	<u>200,510</u>	<u>263,534</u>	<u>0</u>	<u>263,534</u>
Total Liabilities	<u>774,734</u>	<u>1,184,186</u>	<u>1,958,920</u>	<u>(10,701)</u>	<u>1,948,219</u>
NET POSITION					
Unexpended Appropriations (Note 16)	0	10,119,838	10,119,838	0	10,119,838
Cumulative Results of Operations	<u>3,921,892</u>	<u>2,042,570</u>	<u>5,964,462</u>	<u>0</u>	<u>5,964,462</u>
Total Net Position	<u>3,921,892</u>	<u>12,162,408</u>	<u>16,084,300</u>	<u>0</u>	<u>16,084,300</u>
Total Liabilities and Net Position	<u>\$ 4,696,626</u>	<u>\$ 13,346,594</u>	<u>\$ 18,043,220</u>	<u>\$ (10,701)</u>	<u>\$ 18,032,519</u>

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
Consolidated Statement of Net Cost by Goal
For the Year Ended September 30, 2000
(Dollars in Thousands)

	Clean Air	Clean and Safe Water	Safe Food	Prevent Pollution	Better Waste Management	Global Risks
COSTS:						
Intragovernmental	\$ 74,193	\$ 153,480	\$ 23,286	\$ 37,685	\$ 414,860	\$ 34,480
With the Public	<u>462,922</u>	<u>3,209,971</u>	<u>80,003</u>	<u>231,151</u>	<u>1,478,910</u>	<u>179,880</u>
Total Costs	<u>537,115</u>	<u>3,363,451</u>	<u>103,289</u>	<u>268,836</u>	<u>1,893,770</u>	<u>214,360</u>
Less:						
Earned Revenues	<u>219</u>	<u>5,794</u>	<u>21,247</u>	<u>4,180</u>	<u>336,253</u>	<u>6,939</u>
Total Revenue	<u>219</u>	<u>5,794</u>	<u>21,247</u>	<u>4,180</u>	<u>336,253</u>	<u>6,939</u>
Management Cost Allocation	<u>55,155</u>	<u>75,785</u>	<u>22,444</u>	<u>35,815</u>	<u>139,392</u>	<u>16,236</u>
NET COST OF OPERATIONS	<u>\$ 592,051</u>	<u>\$ 3,433,442</u>	<u>\$ 104,486</u>	<u>\$ 300,471</u>	<u>\$ 1,696,909</u>	<u>\$ 223,657</u>

Detailed descriptions of the above Goals are provided in *EPA's FY 2000 Annual Report, Section II – GPRA Performance Results by Strategic Goal*.

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
Consolidated Statement of Net Cost by Goal
For the Year Ended September 30, 2000
(Dollars in Thousands)

	Right to Know	Sound Science	Credible Deterrent	Effective Management	Not Assigned to Goals*	Consolidated Totals
COSTS:						
Intragovernmental	\$ 27,229	\$ 49,203	\$ 69,713	\$ 139,354	\$ 120,149	\$ 1,143,632
With the Public	<u>114,439</u>	<u>286,882</u>	<u>317,423</u>	<u>339,874</u>	<u>25,346</u>	<u>6,726,801</u>
Total Costs	<u>141,668</u>	<u>336,085</u>	<u>387,136</u>	<u>479,228</u>	<u>145,495</u>	<u>7,870,433</u>
Less:						
Earned Revenues	<u>338</u>	<u>1,490</u>	<u>495</u>	<u>1,694</u>	<u>3,335</u>	<u>381,984</u>
Total Revenue	<u>338</u>	<u>1,490</u>	<u>495</u>	<u>1,694</u>	<u>3,335</u>	<u>381,984</u>
Management Cost Allocation	<u>23,447</u>	<u>31,613</u>	<u>77,647</u>	<u>(477,534)</u>	<u>0</u>	<u>0</u>
NET COST OF OPERATIONS	<u>\$ 164,777</u>	<u>\$ 366,208</u>	<u>\$ 464,288</u>	<u>0</u>	<u>\$ 142,160</u>	<u>\$ 7,488,449</u>

* **See Note 33.**

Detailed descriptions of the above Goals are provided in *EPA's FY 2000 Annual Report, Section II – GPRA Performance Results by Strategic Goal.*

The accompanying notes are an integral part of these statements.

**Environmental Protection Agency
Consolidating Statement of Net Cost
For the Year Ended September 30, 2000
(Dollars in Thousands)**

	Superfund Trust Fund	All Others	Combined Totals	Intra-agency Eliminations	Consolidated Totals
COSTS:					
Intragovernmental	\$ 373,311	\$ 787,415	\$ 1,160,726	\$ (17,094)	\$ 1,143,632
With the Public	1,259,464	5,467,337	6,726,801	0	6,726,801
Expenses from Other Appropriations (Note 23)	31,270	(31,270)	0	0	0
Total Costs	<u>1,664,045</u>	<u>6,223,482</u>	<u>7,887,527</u>	<u>(17,094)</u>	<u>7,870,433</u>
 Less:					
Earned Revenues	307,200	91,878	399,078	(17,094)	381,984
Total Revenue	<u>307,200</u>	<u>91,878</u>	<u>399,078</u>	<u>(17,094)</u>	<u>381,984</u>
 NET COST OF OPERATIONS					
	<u>\$ 1,356,845</u>	<u>\$ 6,131,604</u>	<u>\$ 7,488,449</u>	<u>\$ 0</u>	<u>\$ 7,488,449</u>

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
Consolidating Statement of Changes in Net Position
For the Year Ended September 30, 2000
(Dollars in Thousands)

	Superfund Trust Fund	All Others	Combined Totals	Intra-agency Eliminations	Consolidated Totals
Net Cost of Operations	\$ 1,356,845	\$ 6,131,604	\$ 7,488,449	\$ 0	\$ 7,488,449
Financing Sources (Other Than Exchange Revenues):					
Appropriations Used	0	6,632,631	6,632,631	0	6,632,631
Taxes and Non-Exchange Interest (Note 17)	240,808	260,272	501,080	0	501,080
Other Non-Exchange Revenue	1,192	12,958	14,150	0	14,150
Imputed Financing (Note 35)	32,063	168,659	200,722	0	200,722
Trust Fund Appropriations Received (Note 17)	700,000	(700,000)	0	0	0
Income from Other Appropriations (Note 23)	31,270	(31,270)	0	0	0
Transfers-In (Note 34)	9,707	63,730	73,437	(48,725)	24,712
Transfers-Out (Note 34)	(122,935)	(990)	(123,925)	48,725	(75,200)
Net Results of Operations before Trust Fund and Cashout Interest Accounting Changes	(464,740)	274,386	(190,354)	0	(190,354)
Cumulative Effect of Trust Fund Accounting Change on Prior Years' Net Results of Operations (Note 32)	2,656,831	91,596	2,748,427	0	2,748,427
Cumulative Effect of Accounting Change for Cashout Interest on Prior Years' Net Results of Operations (Note 36)	85,382	0	85,382	0	85,382
Net Results of Operations	2,277,473	365,982	2,643,455	0	2,643,455
Increases/(Decreases) in Unexpended Appropriations	(2,656,831)	42,874	(2,613,957)	0	(2,613,957)
Change in Net Position	(379,358)	408,856	29,498	0	29,498
Net Position - Beginning of Period	4,301,250	11,753,552	16,054,802	0	16,054,802
Net Position - End of Period	\$ 3,921,892	\$ 12,162,408	\$ 16,084,300	\$ 0	\$ 16,084,300

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
Combined Statement of Budgetary Resources
For the Year Ended September 30, 2000
(Dollars in Thousands)

	Superfund Trust Fund	All Others	Combined Totals
Budgetary Resources			
Budget Authority	\$ 1,346,470	\$ 6,920,006	\$ 8,266,476
Unobligated Balances, Beginning of Period (Note 31)	482,872	1,674,675	2,157,547
Net Transfers, Prior Period Balances	0	(977)	(977)
Spending Authority from Offsetting Collections	123,161	311,272	434,433
Adjustments (Note 26)	199,372	27,847	227,219
Total Budgetary Resources	<u>\$ 2,151,875</u>	<u>\$ 8,932,823</u>	<u>\$ 11,084,698</u>
Status of Budgetary Resources			
Obligations Incurred	\$ 1,701,337	\$ 7,158,665	\$ 8,860,002
Unobligated Balances Available - Apportioned (Note 27)	449,538	1,644,998	2,094,536
Unobligated Balances Not Available (Note 27)	1,000	129,160	130,160
Total, Status of Budgetary Resources	<u>\$ 2,151,875</u>	<u>\$ 8,932,823</u>	<u>\$ 11,084,698</u>
Outlays			
Obligations Incurred	\$ 1,701,337	\$ 7,158,665	\$ 8,860,002
Less: Spending Authority from Offsetting Collections and Adjustments	<u>(324,821)</u>	<u>(420,189)</u>	<u>(745,010)</u>
Subtotal	1,376,516	6,738,476	8,114,992
Obligated Balance, Net - Beginning of Period	2,433,861	9,153,233	11,587,094
Less: Obligated Balance, Net - End of Period (Note 28)	<u>(2,283,790)</u>	<u>(9,289,444)</u>	<u>(11,573,234)</u>
Total Outlays	<u>\$ 1,526,587</u>	<u>\$ 6,602,265</u>	<u>\$ 8,128,852</u>

The accompanying notes are an integral part of these statements.

**Environmental Protection Agency
Combined Statement of Financing
For the Year Ended September 30, 2000
(Dollars in Thousands)**

	Superfund Trust Fund	All Others	Combined Totals
Obligations and Nonbudgetary Resources			
Obligations Incurred	\$ 1,701,337	\$ 7,158,665	\$ 8,860,002
Less: Spending Authority for Offsetting Collections and Adjustments			
Earned Reimbursements			
Collected	(108,997)	(230,981)	(339,978)
Receivable from Federal Sources	13,324	20,720	34,044
Change in Unfilled Customer Orders (Decreases)/Increases	(17,846)	(54,653)	(72,499)
Transfers from Trust Funds	(9,642)	(46,358)	(56,000)
Recoveries of Prior Year Obligations	(201,660)	(111,767)	(313,427)
Financing Imputed for Cost Subsidies (Note 35)	32,063	168,659	200,722
Income from Other Appropriations (Note 23)	31,270	(31,270)	0
Transfers-In/(Out) of Nonmonetary Assets	39	0	39
Exchange Revenue Not in the Entity's Budget	(215,449)	(3,088)	(218,537)
Total Obligations as Adjusted and Nonbudgetary Resources	<u>1,224,439</u>	<u>6,869,927</u>	<u>8,094,366</u>
Resources that Do Not Fund Net Cost of Operations			
Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Provided - (Increases)/Decreases	143,536	(74,345)	69,191
Change in Unfilled Customer Orders, etc.	17,846	53,227	71,073
Costs Capitalized on the Balance Sheet - (Increases)/Decreases			
General Plant, Property and Equipment	(3,827)	(107,711)	(111,538)
Purchases of Inventory	0	(68)	(68)
Adjustments to Costs Capitalized on the Balance Sheet	0	153	153
Collections that Decrease Credit Program Receivables or Increase Credit Program Liabilities	0	5,014	5,014
Adjustment for Trust Fund Outlays that Do Not Affect Net Cost	(38,090)	(652,268)	(690,358)
Total Resources that Do Not Fund Net Costs of Operations	<u>119,465</u>	<u>(775,998)</u>	<u>(656,533)</u>
Components of Costs that Do Not Require or Generate Resources			
Depreciation and Amortization	3,654	20,651	24,305
Bad Debt Related to Uncollectible Non-Credit Reform Receivables	3,075	1,518	4,593
Revaluation of Assets and Liabilities	0	(165)	(165)
Loss on Disposition of Assets	(813)	0	(813)
Other Expenses Not Requiring Budgetary Resources	45	3,409	3,454
Total Costs That Do Not Require Resources	<u>5,961</u>	<u>25,413</u>	<u>31,374</u>
Financing Sources Yet to be Provided (Note 30)	<u>6,980</u>	<u>12,262</u>	<u>19,242</u>
Net Costs of Operations	<u>\$ 1,356,845</u>	<u>\$ 6,131,604</u>	<u>\$ 7,488,449</u>

The accompanying notes are an integral part of these statements.

Environmental Protection Agency
Consolidated Statement of Custodial Activity
For the Year Ended September 30, 2000
(Dollars in Thousands)

Revenue Activity:

Sources of Collections:

Fines and Penalties	76,850
Other	\$ <u>18,418</u>
Total Cash Collections	95,268
Accrual Adjustment	<u>(8,678)</u>
Total Custodial Revenue	<u>86,590</u>

Disposition of Collections:

Transferred to Others (General Fund)	97,730
Increases/(Decreases) in Amounts To Be Transferred	<u>(11,140)</u>
Total Disposition of Collections	<u>86,590</u>
Net Custodial Revenue Activity	\$ <u><u>0</u></u>

The accompanying notes are an integral part of these statements.

Environmental Protection Agency

Notes to Financial Statements

(Dollars in Thousands)

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

These consolidating financial statements have been prepared to report the financial position and results of operations of the Environmental Protection Agency (Agency) for the Hazardous Substance Superfund (Superfund) Trust Fund and All Other Funds, as required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. The reports have been prepared from the books and records of the Agency in accordance with "Form and Content for Agency Financial Statements," specified by the Office of Management and Budget (OMB) in Bulletin 97-01, and the Agency's accounting policies which are summarized in this note. In addition to the guidance in Bulletin 97-01, the Statement of Net Cost has been prepared by the EPA strategic goals. These statements are therefore different from the financial reports also prepared by the Agency pursuant to OMB directives that are used to monitor and control the Agency's use of budgetary resources.

B. Reporting Entities

The Environmental Protection Agency was created in 1970 by executive reorganization from various components of other Federal agencies in order to better marshal and coordinate Federal pollution control efforts. The Agency is generally organized around the media and substances it regulates -- air, water, land, hazardous waste, pesticides and toxic substances. For FY 2000, the reporting entities are grouped as Hazardous Substance Superfund and All Other Funds.

Hazardous Substance Superfund

In 1980, the Hazardous Substance Superfund, commonly referred to as the Superfund Trust Fund, was established by the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA) to provide resources needed to respond to and clean up hazardous substance emergencies and abandoned, uncontrolled hazardous waste sites. The Superfund Trust Fund financing is shared by Federal and state governments as well as industry. The Agency allocates funds from its appropriation to other Federal agencies to carry out the Act. Risks to public health and the environment at uncontrolled hazardous waste sites qualifying for the Agency's National Priorities List (NPL) are reduced and addressed through a process involving site assessment and analysis, and the design and implementation of cleanup remedies. Throughout this process, cleanup activities may be supported by shorter term removal actions to reduce immediate risks. Removal actions may include removing contaminated material from the site, providing an alternative water supply to people living nearby, and installing security measures. NPL cleanups and removals are conducted and financed by the Agency, private parties, or other Federal agencies. Superfund includes the Treasury collections and investment activity. The Superfund Trust Fund is accounted for under Treasury symbol number 8145.

All Other Funds

All Other Funds include Trust Fund appropriations, General Fund appropriations, Revolving Funds, Special Funds, the Agency Budgetary Clearing accounts, Deposit Funds, General Fund Receipt accounts, the

Environmental Services Special Fund Receipt Account, the Miscellaneous Contributed Funds Trust Fund, and General Fund appropriations transferred from other Federal agencies as authorized by the Economy Act of 1932. Trust Fund appropriations are to the Leaking Underground Storage Tank (LUST) Trust Fund and the Oil Spill Response Trust Fund. General Fund appropriations are to State and Tribal Assistance Grants (STAG), Science and Technology (S&T), Environmental Programs and Management (EPM), Office of Inspector General (IG), Buildings and Facilities (B&F), and Payment to the Hazardous Substance Superfund. General Fund appropriations that no longer receive current appropriations but have unexpended authority are the Program and Research Operations (PRO), and Energy, Research and Development. Revolving Funds include the FIFRA Revolving Fund and Tolerance Revolving Fund, which receive no direct appropriations; however, they do collect fees from public industry as a source of reimbursement for the services provided. In addition to FIFRA and Tolerance, a Working Capital Fund (WCF) was established and designated as a franchise fund to provide computer operations support and postage service for the Agency. A Special Fund was established to collect the Exxon Valdez settlement as a result of the Exxon Valdez oil spill. All Other Funds are as follows:

The LUST Trust Fund was authorized by the Superfund Amendments and Reauthorization Act of 1986 (SARA) as amended by the Omnibus Budget Reconciliation Act of 1990. The LUST appropriation provides funding to respond to releases from leaking underground petroleum tanks. The Agency oversees cleanup and enforcement programs which are implemented by the states. Funds are allocated to the states through cooperative agreements to clean up those sites posing the greatest threat to human health and environment. Funds are used for grants to non-state entities including Indian tribes under Section 8001 of the Resource Conservation and Recovery Act. The program is financed by a 0.1 cent a gallon tax on motor fuels, which will expire in 2005, and is accounted for under Treasury symbol number 8153.

The Oil Spill Response Trust Fund was authorized by the Oil Pollution Act (OPA) of 1990. The Oil Spill Response Trust Fund was established in FY 1993 and monies were appropriated to the Oil Spill Response Trust Fund. The Agency is responsible for directing, monitoring and providing technical assistance for major inland oil spill response activities. This involves setting oil prevention and response standards, initiating enforcement actions for compliance with OPA and Spill Prevention Control and Countermeasure requirements, and directing response actions when appropriate. The Agency carries out research to improve response actions to oil spills including research on the use of remediation techniques such as dispersants and bioremediation. Funding of oil spill cleanup actions is provided through the Department of Transportation under the Oil Spill Liability Trust Fund and reimbursable funding from other Federal agencies. The Oil Spill Response Trust Fund is accounted for under Treasury symbol number 8221.

The State and Tribal Assistance Grants (STAG) appropriation provides funds for environmental programs and infrastructure assistance including capitalization grants for State revolving funds and performance partnership grants. Environmental programs and infrastructure supported are Clean and Safe Water; Capitalization grants for the Drinking Water State Revolving Funds; Clean Air; Direct grants for Water and Wastewater Infrastructure needs, Partnership grants to meet Health Standards, Protect Watersheds, Decrease Wetland Loss, and Address Agricultural and Urban Runoff and Storm Water; Better Waste Management; Preventing Pollution and Reducing Risk in Communities, Homes, Workplaces and Ecosystems; and Reduction of Global and Cross Border Environmental Risks. STAG is accounted for under Treasury symbol 0103.

The Science and Technology (S&T) appropriation finances salaries; travel; science; technology; research and development activities including laboratory and center supplies; certain operating expenses; grants; contracts; intergovernmental agreements; and purchases of scientific equipment. These activities provide the scientific basis for the Agency's regulatory actions. In FY 2000, Superfund research costs were appropriated in Superfund and transferred to S&T to allow for proper accounting of the costs. Scientific

and technological activities for environmental issues include Clean Air; Clean and Safe Water; Americans' Right to Know About Their Environment; Better Waste Management; Preventing Pollution and Reducing Risk in Communities, Homes, Workplaces, and Ecosystems; and Safe Food. The Science and Technology appropriation is accounted for under Treasury symbol 0107.

The Environmental Programs and Management (EPM) includes funds for salaries; travel; contracts; grants and cooperative agreements for pollution abatement, control and compliance activities; and administrative activities of the operating programs. Areas supported from this appropriation include Clean Air; Clean and Safe Water; Preventing Pollution and Reducing Risk in Communities, Homes, Workplaces, and Ecosystems; Better Waste Management, Restoration of Contaminated Waste Sites and Emergency Response; Reduction of Global and Cross Border Environmental Risks; Americans' Right to Know About Their Environment; Sound Science, Improved Understanding of Environmental Risk, and Greater Innovation to Address Environmental Problems; a Credible Deterrent to Pollution and Greater Compliance with the Law; and Effective Management. The Environmental Programs and Management appropriation is accounted for under Treasury symbol 0108.

The Office of Inspector General appropriation provides funds for audit and investigative functions to identify and recommend corrective actions on management and administrative deficiencies that create the conditions for existing or potential instances of fraud, waste and mismanagement. Additional funds for audit and investigative activities associated with the Superfund Trust Fund and the Leaking Underground Storage Tank Trust Fund are appropriated under those Trust Fund accounts and are transferred to the Office of Inspector General account. The audit function provides contract audit, internal and performance audit, and financial and grant audit services. The Office of Inspector General appropriation is accounted for under Treasury symbol 0112 and includes expenses incurred and reimbursed from the appropriated trust funds being accounted for under Treasury symbols 8145 and 8153.

The Buildings and Facilities appropriation provides for the construction, repair, improvement, extension, alteration, and purchase of fixed equipment or facilities that are owned or used by the Environmental Protection Agency. The Buildings and Facilities appropriation is accounted for under Treasury symbol 0110.

The Payment to the Hazardous Substance Superfund appropriation authorizes appropriations from the General Fund of the Treasury to finance activities conducted through Hazardous Substance Superfund. Payment to the Hazardous Substance Superfund is accounted for under Treasury symbol 0250.

The Asbestos Loan Program was authorized by the Asbestos School Hazard Abatement Act of 1986 to finance control of asbestos building materials in schools. Funds have not been appropriated for this Program since FY 1993. For FY 1993 and FY1992, the program was funded by a subsidy appropriated from the General Fund for the actual cost of financing the loans, and by borrowing from Treasury for the unsubsidized portion of the loan. The Program fund disbursed the subsidy to the Financing fund as loans were made, and disbursed administrative expenses to the providers. The Financing fund received the subsidy payment, borrowed from Treasury and disbursed loans and collects the asbestos loans. The Asbestos Loan Program is accounted for under Treasury symbol 4322 for loans receivable and loan collections on post FY 1991 loans; and under Treasury symbol 2917 for pre FY 1992 loans receivable and loan collections.

The Program and Research Operations appropriation provides salaries and travel associated with administering the operating programs within the Environmental Protection Agency. It incorporated personnel, compensation and benefit costs and travel, exclusive of the Hazardous Substance Response Trust Fund, the Leaking Underground Storage Tank Trust Fund, the Office of Inspector General and the

Oil Spill Response Trust Fund. In fiscal year 1996, Congress restructured the Agency's accounts. The Program and Research Operations appropriation was eliminated. Activity remaining from prior fiscal year appropriations is accounted for under Treasury symbol 0200. Unexpended authority for the Program and Research Operations appropriation was canceled at the end of the fiscal year.

The FIFRA Revolving Fund was authorized by the Federal Insecticide, Fungicide and Rodenticide Act Amendments of 1998, as amended by the Food Quality Protection Act of 1996. Fees are paid by industry to offset costs of accelerated reregistration, expedited processing of pesticides, and establishing tolerances for pesticide chemicals in or on food and animal feed. The FIFRA Revolving Fund is accounted for under Treasury symbol number 4310.

The Tolerance Revolving Fund was authorized in 1963 for the deposit of tolerance fees. Fees are paid by industry for EPA to establish tolerances of pesticide chemicals in or on food and animal feed. Effective January 2, 1997, fees collected are now being deposited in the Reregistration and Expedited Processing Revolving Fund (4310). The fees collected prior to this date are accounted for under Treasury symbol number 4311.

The Working Capital Fund (WCF) includes two activities: computer support services and postage. WCF derives revenue from these activities based upon fee for services. WCF's customers currently consist solely of Agency program offices. Accordingly, revenue generated by WCF and expenses recorded by the program offices for use of such services, along with the related advances/liabilities, are eliminated on consolidation. The WCF is accounted for under Treasury symbol 4565.

The Exxon Valdez Settlement Fund has funds available to carry out authorized environmental restoration activities. Funding is derived from the collection of reimbursements under the Exxon Valdez settlement as a result of the oil spill. The Exxon Valdez Settlement fund is accounted for under Treasury symbol number 5297.

Appropriations transferred to the Agency from other Federal agencies include funds from the Appalachian Regional Commission and the Department of Commerce, which provide economic assistance to state and local developmental activities; the Agency for International Development which provides assistance on environmental matters at international levels; and from the General Services Administration, which provides funds for rental of buildings, and operations, repairs, and maintenance of rental space. The transfers appropriations are accounted for under Treasury symbols 0200, 1010, 1021, 2050, and 4542.

Clearing Accounts include the Budgetary suspense account, Deposit in Transit differences, Unavailable Check Cancellations and Overpayments, and Undistributed and Letter of Credit differences. Clearing accounts are accounted for under Treasury symbols 3875 and 3880.

Deposit funds include Fees for Ocean Dumping, Nonconformance Penalties, Suspense and payroll deposits for Savings Bonds, and State and City Income Taxes Withheld. Deposit funds are accounted for under Treasury symbols 6050, 6264, 6265, 6266, 6275, 6500, and 6875.

General Fund Receipt Accounts include Hazardous Waste Permits; Miscellaneous Fines, Penalties and Forfeitures; General Fund Interest; Interest from Credit Reform Financing Accounts; Fees and Other Charges for Administrative and Professional Services; and Miscellaneous Recoveries and Refunds. General Fund Receipt accounts are accounted for under Treasury symbols 0895, 1099, 1435, 1499, 2410, 3200, and 3220.

The Environmental Services Receipt account was established for the deposit of fee receipts associated with environmental programs, including radon measurement proficiency ratings and training, motor vehicle engine certifications, and water pollution permits. Receipts in this special fund will be appropriated to the S&T appropriation and to the EPM appropriation to meet the expenses of the programs that generate the receipts. Environmental Services are unavailable receipts accounted for under Treasury symbol 5295.

The Miscellaneous Contributed Funds Trust Fund includes gifts for pollution control programs that are usually designated for a specific use by the donor and deposits from pesticide registrants to cover the costs of petition hearings when such hearings result in unfavorable decisions to the petitioner. Miscellaneous Contributed Funds Trust Fund is accounted for under Treasury symbol 8741.

The accompanying financial statements include the accounts of all funds described in this note. The expense allocation methodology is a financial statement estimate that presents EPA's programs at full cost. Superfund may charge some costs directly to the fund and charge the remainder of the costs to the All Other Funds in the Agency-wide appropriations. These amounts are presented as Expenses from Other Appropriations on the Statement of Net Cost and as Income from Other Appropriations on the Statement of Changes in Net Position and the Statement of Financing.

The Superfund Trust Fund is allocated general support services costs (such as rent, communications, utilities, mail operations, etc.) that were initially charged to the Agency's S&T and EPM appropriations. During the year, these costs are allocated from the S&T and EPM appropriations to the Superfund Trust Fund based on a ratio of direct labor hours, using budgeted or actual full-time equivalent personnel charged to these appropriations, to the total of all direct labor hours. Agency general support services cost charges to the Superfund Trust Fund may not exceed the ceilings established in the Superfund Trust Fund appropriation. The related general support services costs charged to the Superfund Trust Funds was \$56.3 million for FY 2000.

C. Budgets and Budgetary Accounting

Superfund

Congress adopts an annual appropriation amount to be available until expended for the Superfund Trust Fund. A transfer account for the Superfund Trust Fund has been established for purposes of carrying out the program activities. As the Agency disburses obligated amounts from the transfer account, the Agency draws down monies from the Superfund Trust Fund at Treasury to cover the amounts being disbursed.

All Other Funds

Congress adopts an annual appropriation amount for the LUST Trust Fund and for the Oil Spill Response Trust Fund to remain available until expended. A transfer account for the LUST Trust Fund has been established for purposes of carrying out the program activities. As the Agency disburses obligated amounts from the transfer account, the Agency draws down monies from the LUST Trust Fund at Treasury to cover the amounts being disbursed. The Agency draws down all the appropriated monies from the Treasury's Oil Spill Liability trust fund to the Oil Spill Response Trust Fund when Congress adopts the appropriation amount. Congress adopts an annual appropriation for STAG, Buildings and Facilities, and for Payments to the Hazardous Substance Superfund to be available until expended; adopts annual appropriation for S&T, EPM and for the Office of Inspector General to be available for two fiscal years. When the appropriations for the General Funds are enacted, Treasury issues a warrant to the respective appropriations. As the Agency disburses obligated amounts, the balance of funds available to the appropriation is reduced at Treasury.

The Asbestos Loan Program is a commercial activity financed by a combination from two sources: one for the long term cost of the loan and another for the remaining non-subsidized portion of the loan. The long term costs are defined as the net present value of the estimated cash flows associated with the loans. The portion of each loan disbursement that does not represent long term cost is financed under a permanent indefinite borrowing authority established with the Treasury. The annual appropriation bill limits the amount of obligations that can be made for direct loans. A permanent indefinite appropriation is available to finance the costs of subsidy re-estimates that occur after the year in which the loan is disbursed. No appropriation was adopted by Congress for FY 2000; therefore, there was no new financing available to the Asbestos Loan Program for FY 2000.

Funding of the FIFRA and the Tolerance Revolving Funds is provided by fees collected from industry to offset costs incurred by the Agency in carrying out these programs. Each year the Agency submits an apportionment request to OMB based on the anticipated collections of industry fees.

Funding of the WCF is provided by fees collected from other Agency appropriations collected to offset costs incurred for providing the Agency administrative support for computer support services and postage.

Funds transferred from other Federal agencies is funded by a non expenditure transfer of funds from the other Federal agencies. As the Agency disburses the obligated amounts, the balance of funding available to the transfer appropriation is reduced at Treasury.

Clearing accounts, Deposit accounts, and Receipt accounts receive no budget. The amounts are recorded to the Clearing and Deposit accounts pending further disposition. Amounts recorded to the Receipt accounts capture amounts receivable to or collected for the General Fund of the U.S. Treasury.

D. Basis of Accounting

Superfund and All Other Funds

Transactions are recorded on an accrual accounting basis and on a budgetary basis (where budgets are issued). Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds. All interfund balances and transactions have been eliminated.

E. Revenues and Other Financing Sources

Superfund

The Superfund receives most funding needed to support the program through appropriations that may be used within statutory limits, for operating and capital expenditures (primarily equipment). Additional financing for the Superfund Trust Fund is obtained through reimbursements from other Federal agencies, from States for State Cost Share, and from potentially responsible parties (PRPs) for future costs. Revenues collected through cost recovery are deposited with the Trust fund at Treasury.

All Other Funds

The majority of All Other Funds appropriations receive funding needed to support programs through appropriations, which may be used, within statutory limits, for operating and capital expenditures. Under Credit Reform provisions, the Asbestos Loan Program received funding to support the subsidy cost of loans

through appropriations which may be used with statutory limits. The Asbestos Direct Loan Financing fund, an off-budget fund, receives additional funding to support the loan disbursements through collections from the Program fund for the subsidized portion of the loan and through borrowing from Treasury for the non-subsidized portion. The last year Congress provided appropriations for this fund was 1993, accordingly, no new funding has been available for this program. The FIFRA and the Tolerance Revolving Funds receive funding, which is now deposited with the FIFRA Revolving Fund, through fees collected for services provided. The FIFRA Revolving Fund also receives interest on invested funds. The WCF receives revenue through fees collected for services provided to Agency program offices. Such revenue is eliminated with related Agency program expenses on Consolidation. The Exxon Valdez Settlement Fund received funding through reimbursements.

Appropriations are recognized as Other Financing Sources when earned, i.e., when goods and services have been rendered without regard to payment of cash. Other revenues are recognized when earned, i.e., when services have been rendered.

F. Funds with the Treasury

Superfund and All Other Funds

The Agency does not maintain cash in commercial bank accounts. Cash receipts and disbursements are handled by Treasury. The funds maintained with Treasury are Appropriated Funds, Revolving Funds and Trust Funds. These funds have balances available to pay current liabilities and finance authorized purchase commitments.

G. Investments in U.S. Government Securities

Superfund and All Other Funds

Investments in U.S. Government securities are maintained by Treasury and are reported at amortized cost net of unamortized discounts. Discounts are amortized over the term of the investments and reported as interest income. Investments are held to maturity, unless they are needed to finance operations of the fund.

H. Securities Received in Settlement

Superfund

During FY 1993 and FY 1996, the Agency received marketable equity securities, valued at a total \$5,146 thousand of which \$5,127 thousand are still held, from a company in settlement of Superfund cost recovery actions. The Agency records marketable securities at cost as of the date of receipt. Marketable securities are held by Treasury and reported at their cost value in the financial statements until sold.

I. Accounts Receivable and Interest Receivable

Superfund

The Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), as amended by the Superfund Amendments and Reauthorization Act (SARA), provides for the recovery of costs from potentially responsible parties (PRPs). However, cost recovery expenditures are expensed when incurred since there is no assurance that these funds will be recovered.

It is the Agency's policy to record accounts receivable from PRPs for Superfund site response costs when a consent decree, judgment, administrative order, or settlement is entered. These agreements are generally negotiated after site response costs have been incurred. It is the Agency's position that until a consent decree or other form of settlement is obtained, the amount recoverable should not be recorded.

The Agency also records accounts receivable from states for a percentage of Superfund site remedial action costs incurred by the Agency within those states. As agreed to under Superfund State Contracts (SSCs), cost sharing arrangements under SSCs may vary according to whether a site was privately or publicly operated at the time of hazardous substance disposal and whether the Agency response action was removal or remedial. SSC agreements are usually for 10% or 50% of site remedial action costs. States may pay the full amount of their share in advance, or incrementally throughout the remedial action process. Allowances for uncollectible state cost share receivables have not been recorded, because the Agency has not had collection problems with these agreements.

All Other Funds

The majority of receivables for All Other Funds represent interest receivable for Asbestos and FIFRA and both accounts receivable and interest receivable to the General Fund of the Treasury.

J. Loans Receivable

All Other Funds

Loans are accounted for as receivables after funds have been disbursed. Loans receivable resulting from obligations on or before September 30, 1991, are reduced by the allowance for uncollectible loans. Loans receivable resulting from loans obligated on or after October 1, 1991, are reduced by an allowance equal to the present value of the subsidy costs associated with these loans. The subsidy cost is calculated based on the interest rate differential between the loans and Treasury borrowing, the estimated delinquencies and defaults net of recoveries offset by fees collected and other estimated cash flows associated with these loans.

K. Appropriated Amounts Held by Treasury

Superfund and All Other Funds

For the Superfund and LUST Trust Funds, and for amounts appropriated to the Office of Inspector General from the Superfund and LUST Trust Funds, cash available to the Agency that is not needed immediately for current disbursements remains in the respective Trust Funds managed by Treasury. At the end of FY 2000 approximately \$2.7 billion remained in the Treasury managed Superfund Trust Fund and approximately \$86.2 million remained in the LUST Trust Fund to meet the Agency's disbursement needs.

L. Advances and Prepayments

Superfund and All Other Funds

Advances and prepayments represent funds advanced or prepaid to other entities both internal and external to the Agency for which a budgetary expenditure has not yet occurred.

M. Property, Plant, and Equipment

Superfund and All Other Funds

The Fixed Assets Subsystem (FAS) implemented in FY 1997 maintains EPA-held personal and real property records. The FAS automatically generates depreciation entries monthly based upon the acquisition date. Purchases of EPA-held and contractor-held personal equipment are capitalized if the equipment is valued at \$25 thousand or more and has an estimated useful life of at least two years. Prior to implementing FAS, depreciation was taken on a modified straight-line basis over a period of six years depreciating 10% the first and sixth year, and 20% in years two through five. All EPA-held personal equipment purchased before the implementation of FAS was assumed to have an estimated useful life of five years. New acquisitions of EPA-held personal equipment are depreciated using the straight-line method over the specific assets' useful lives, ranging from two to 15 years.

Real property consists of land, buildings, and capital and leasehold improvements. Real property, other than land, is capitalized when the value is \$75 thousand or more. Land is capitalized regardless of cost. Buildings are valued at an estimated original cost basis, and land is valued at fair market value. Depreciation for real property is calculated using the straight-line method over the specific assets' useful lives, ranging from 10 to 102 years. Leasehold improvements are amortized over the lesser of their useful lives or the unexpired lease terms. In addition to property and improvements not meeting the capitalization criteria, expenditures for minor alterations, and repairs and maintenance are expensed as incurred.

N. Liabilities

Superfund and All Other Funds

Liabilities represent the amount of monies or other resources that are likely to be paid by the Agency as the result of a transaction or event that has already occurred. However, no liability can be paid by the Agency without an appropriation or other collection of revenue for services provided. Liabilities for which an appropriation has not been enacted are classified as unfunded liabilities and there is no certainty that the appropriations will be enacted. Liabilities of the Agency, arising from other than contracts, can be abrogated by the Government acting in its sovereign capacity.

O. Borrowing Payable to the Treasury

All Other Funds

Borrowing payable to Treasury results from loans from Treasury to fund the Asbestos direct loans described in part B and C of this note. Periodic principal payments are made to Treasury based on the collections of loans receivable.

P. Interest Payable to Treasury

All Other Funds

The Asbestos Loan Program makes periodic interest payments to Treasury based on its debt to Treasury. At the end of FY 2000, there was no outstanding interest payable to Treasury since payment was made through September 30.

Q. Accrued Unfunded Annual Leave

Superfund and All Other Funds

Annual, sick and other leave is expensed as taken during the fiscal year. Sick and other leave earned but not taken is not accrued as a liability. Annual leave and compensation time in lieu of overtime earned but not taken as of the end of the fiscal year are accrued as an unfunded liability. Accrued unfunded leave is included in the Statement of Financial Position as a component of "Other Liabilities-Governmental." As of September 30, 2000, the unfunded leave liability for the Superfund Trust Fund was \$19.6 million and for All Other Funds was \$93.2 million.

R. Retirement Plan

Superfund and All Other Funds

The majority of the Agency's employees participate in the Civil Service Retirement System (CSRS), to which the Agency contributes 8.51% and employees contribute 7.40% (as of January 1, 2000) of base pay.

On January 1, 1987, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, were allowed to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to the Agency employees which automatically contributes 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay. For most employees hired after December 31, 1983, the Agency also contributes the employer's matching share for Social Security.

With the issuance of "Accounting for Liabilities of the Federal Government" (SFFAS-5), which was effective for the FY 1997 financial statements, accounting and reporting standards were established for liabilities relating to the Federal employee benefit programs (Retirement, Health Benefits and Life Insurance). SFFAS-5 requires that employing agencies recognize the cost of pensions and other retirement benefits during their employees' active years of service. SFFAS-5 requires that the Office of Personnel Management, as administrator of the Civil Service Retirement and Federal Employees Retirement Systems, the Federal Employees Health Benefits Program, and the Federal Employees Group Life Insurance Program, provides EPA with the "Cost Factors" to compute EPA's liability for each program.

S. Cost Accounting

Superfund and All Other Funds

EPA has designated the Goals, Objectives and Sub-objectives of the Agency's Strategic Plan prepared under the Government Performance and Results Act (GPRA) as the Agency's "products and services." Under the GPRA structure, each expenditure from obligations made using new obligational authority (NOA) in FY 1999 forward is made at the Goal, Objective, Sub-objective level that is part of the Program Results Code (PRC). EPA's senior management made the decision not to "recast" resources under the old Program Element (PE) structure to the GPRA structure. However, the program offices where these PEs were obligated and disbursed cross walked the expenses to the appropriate Goal(s). Most of the PEs can be traced directly to a Goal and in those cases where PEs crossed Goals, the allocation of expenses was done on a reasonable and consistent basis.

Program Performance Grants (PPGs) allow state and interstate agencies to combine two or more environmental program grants into one grant. PPGs are performance based and the States are accountable for performance but not for detailed accounting as to how funds are spent. These grants may cover several Goals. EPA grant project officers in discussion with States align the grant work plan with the GPRA structure. Accounting at the Goal level is based on expected performance as outlined in the work plan. Adjustments are made to the accounting only if the actual performance varies materially from the grant work plan.

Activities occurring in Goal 10 are for the administrative functions necessary for a federal agency to support its complex and wide reaching programs. These activities are not directly charged to the Agency's environmental programs. For the Statement of Net Cost by Goal, the costs in Goal 10 are allocated to Goals 1 thru 9 based on the total Full Time Equivalents (FTE) within each Goal. The Goal 10 agency-wide costs are allocated based on the total FTE in each of the Goals; costs associated with regional support are allocated based on Regional FTE in each Goal.

Note 2. Fund Balances with Treasury

Fund Balances with Treasury as of September 30, 2000, consists of the following (in thousands):

	<u>Entity Assets</u>	<u>Non- Assets</u>	<u>Total</u>
Trust Funds:			
Superfund	\$ 37,397	\$ 0	\$ 37,397
LUST	1,300	0	1,300
Oil Spill	3,106	0	3,106
Revolving Funds:			
FIFRA	5,442	0	5,442
Tolerance	22	0	22
Working Capital	52,509	0	52,509
Appropriated Funds	10,913,47	0	10,913,471
Other Fund Types	<u>76,338</u>	<u>7,068</u>	<u>83,406</u>
Total	<u>\$ 11,089,58</u>	<u>\$ 7,068</u>	<u>\$ 11,096,653</u>

Entity fund balances include balances that are available to pay current liabilities and to finance authorized purchase commitments. Also, entity assets, Other Fund Types consist of the Environmental Services Receipt account. The Environmental Services Receipt account is a special fund receipt account. Upon Congress appropriating the funds, EPA will use the receipts in the Science and Technology appropriation and the Environmental Programs and Management appropriation.

The non-entity Other Fund Type consist of deposit funds. The deposit funds are awaiting documentation for the determination of proper accounting disposition.

Note 3. Cash

In All Others, as of September 30, 2000, Cash consisted of imprest funds totaling \$48 thousand.

Note 4. Investments

As of September 30, 2000, investments consisted of the following:

Amounts for Balance					
		Unamortized (Premium)	Interest	Investment	Market
<hr/>					
<u>Superfund</u>					
Intragovernmental					
Non-Marketable	\$ <u>4,126.45</u>	\$ <u>166.180</u>	\$ <u>43</u>	\$ <u>3,960,313</u>	\$ <u>3,960,313</u>
<u>All Others</u>					
Intragovernmental					
Non-Marketable	\$ <u>1,669.66</u>	\$ <u>76.334</u>	\$ <u>26</u>	\$ <u>1,593,357</u>	\$ <u>1,593,357</u>

CERCLA, as amended by SARA, authorizes EPA to recover monies to clean up Superfund sites from responsible parties (RP). Some RPs file for bankruptcy under Title 11 of the U.S. Code. In bankruptcy settlements, EPA is an unsecured creditor and is entitled to receive a percentage of the assets remaining after secured creditors have been satisfied. Some RPs satisfy their debts by issuing marketable securities in the reorganized company. The Agency does not intend to exercise ownership rights to these securities, and instead will convert these securities to cash as soon as practicable.

Note 5. Accounts Receivable

The Accounts Receivable for September 30, 2000, consist of the following:

	<u>Superfund</u>	<u>All</u>
Intragovernmental Assets:		
Accounts & Interest Receivable	\$ <u>40,671</u>	\$ <u>34,371</u>
Total	\$ <u>40,671</u>	\$ <u>34,371</u>
Governmental Assets:		
Unbilled Accounts Receivable	\$ 88,209	\$ 0
Accounts & Interest Receivable	883,938	155,581
Less: Allowance for Doubtful	<u>(355,108)</u>	<u>(67,686)</u>
Total	\$ <u>617,039</u>	\$ <u>87,895</u>

Accounts receivable due from other Federal agencies are considered fully collectible.

The Allowance for Doubtful Accounts is determined on a specific identification basis as a result of a case-by-case review of receivables at the regional level, and a reserve on a percentage basis for those not specifically identified.

The Accounts Receivable amount above includes a Superfund penalty amount of \$638.6 thousand that was applied and posted late in FY 2000. The agency believes that collection of this amount is not likely. Had the penalty been applied earlier in the year, the Allowance for Doubtful Accounts would have been adjusted upward by \$479 thousand to account for the low likelihood of collection.

Note 6. Other Assets

Other Assets for September 30, 2000, consist of the following

	Superfund Trust Fund	All Others	Combined Totals	Intra-agency Eliminations	Consolidated Totals
Intragovernmental Assets:					
Advances to Federal Agencies	\$ 15,279	\$ 7,409	\$ 22,688	\$ 0	\$ 22,688
Advances to Working Capital Fund	6,510	0	6,510	(6,510)	0
Advances for Postage	<u>0</u>	<u>43</u>	<u>43</u>	<u>0</u>	<u>43</u>
Total Intragovernmental Assets	\$ 21,789	\$ 7,452	\$ 29,241	\$ (6,510)	\$ 22,731
Governmental Assets:					
Travel Advances	\$ (18)	\$ (916)	\$ (934)	\$ 0	\$ (934)
Letter of Credit Advances	0	599	599	0	599
Grant Advances	0	1,945	1,945	0	1,945
Other Advances	767	75	842		842
Bank Card Payments	1	0	1		1
Deposit on Returnable Containers	0	(2)	(2)	0	(2)
Prepaid Rent	<u>0</u>	<u>11</u>	<u>11</u>	<u>0</u>	<u>11</u>
Total Governmental Assets	\$ 750	\$ 1,712	\$ 2,462	\$ 0	\$ 2,462

Note 7. Loans Receivable, Net - Non-Federal

Asbestos Loan Program loans disbursed from obligations made prior to FY 1992 are net of an allowance for estimated uncollectible loans, if an allowance was considered necessary. Loans disbursed from obligations made after FY 1991 are governed by the Federal Credit Reform Act. The Act mandates that the present value of the subsidy costs (i.e., interest rate differentials, interest subsidies, anticipated delinquencies, and defaults) associated with direct loans be recognized as an expense in the year the loan is made. The net present value of loans is the amount of the gross loan receivable less the present value of the subsidy.

An analysis of loans receivable and the nature and amounts of the subsidy and administrative expenses associated entirely with Asbestos Loan Program loans as of September 30, 2000, is provided in the following sections.

	Loans Receivable, Gross	Allowance*	Value of Assets Related to Direct Loans
Direct Loans Obligated Prior to FY 1992	\$ 58,114	\$ 0	\$ 58,114
Direct Loans Obligated After FY 1991	<u>46,909</u>	<u>(15,895)</u>	<u>31,014</u>
Total	\$ 105,023	\$ (15,895)	\$ 89,128

* Allowance for Pre-Credit Reform loans (Prior to FY 1992) is the Allowance for Estimated Uncollectible Loans and the Allowance for Post Credit Reform Loans (After FY 1991) is the Allowance for Subsidy Cost (present value).

Subsidy Expenses for Post Credit Reform Loans:

	Interest Differential	Expected Defaults	Fee Offsets	Total
Direct Loan Subsidy Expense	\$ 2,640	\$ 0	\$ 0	\$ 2,640

Note 8. Inventory and Property Received in Settlement, Net

The Inventory and Related Property at September 30, 2000, consisted of the following:

	Superfund	All Other
Operating Materials and Supplies Held for Use in Normal Operations	\$ 0	\$ 306
Securities Received in Settlement	5,086	41
Total	\$ 5,086	\$ 347

The securities represent assets received during a bankruptcy proceeding. The Agency does not intend to exercise ownership rights related to these securities, and instead will convert these securities to cash as soon as practicable.

Note 9. General Plant, Property and Equipment

Superfund property, plant and equipment, consists of personal property items held by contractors and the Agency. EPA also has property funded by various other Agency appropriations. The property funded by these appropriations are presented in the aggregate under "All Others" and consists of real, EPA-Held and Contractor-Held personal, and capitalized-leased property.

Purchases of EPA-Held and Contractor-Held personal property are capitalized if the equipment is valued at \$25 thousand or more and has an estimated useful life of at least two years. Software is capitalized if the purchase price is \$100 thousand or more for a revenue generating activity, such as the Working Capital Fund, and has an estimated useful life of at least two years. The Agency depreciates EPA-Held personal property using a straight-line method over the asset's useful life ranging from two to 15 years. Contractor-Held personal property is depreciated over five years using a modified straight-line method. Real property, other than land, is capitalized when the value is \$75 thousand or more and is depreciated using the straight-line method over the specific asset's useful life ranging from 10 to 102 years. Land is capitalized regardless of cost. Leasehold improvements are amortized over the lesser of their useful lives or the unexpired lease term.

As of September 30, 2000, Plant, Property and Equipment consisted of the following:

	Superfund			All Others		
	Acquisition Value	Accumulated Depreciation	Net Book Value	Acquisition Value	Accumulated Depreciation	Net Book Value
EPA-Held Equipment	\$ 24,733	\$ (16,313)	\$ 8,420	\$ 134,893	\$ (86,883)	\$ 48,010
Software	0	0	0	550	0	550
Contractor-Held Equipment	8,814	(3,653)	5,161	34,103	(27,551)	6,552
Land and Buildings	0	0	0	461,817	(73,430)	388,387
Capital Leases	0	0	0	40,992	(11,463)	29,529
Total	\$ 33,547	\$ (19,966)	\$ 13,581	\$ 672,355	\$ (199,327)	\$ 473,028

Note 10. Debt

The Debt consisted of the following as of September 30, 2000:

<u>All Others</u>	<u>Beginning Balance</u>	<u>Net Borrowing</u>	<u>Ending Balance</u>
Other Debt:			
Debt to Treasury	\$ <u>37,922</u>	\$ <u>0</u>	\$ <u>37,922</u>
Classification of Debt:			
Intra-governmental Debt			\$ <u>37,922</u>
Total			\$ <u>37,922</u>

Note 11. Custodial Liability

Custodial Liability represent the amount of net accounts receivable that, when collected, will be deposited to the General Fund of the Treasury. Included in the custodial liability are amounts for fines and penalties, interest assessments, repayments of loans, and miscellaneous other accounts receivable.

Note 12. Other Liabilities

The Other Liabilities, both intragovernmental and non-Federal, for September 30, 2000, are as follows:

Other Liabilities - Intragovernmental	<u>Covered by Budgetary Resources</u>	<u>Not Covered by Budgetary Resources</u>	<u>Total</u>
Superfund - Current			
Employer Contributions & Payroll Taxes	\$ 2,900	\$ 0	\$ 2,900
Other Advances	1,681	0	1,681
Advances, HRSTF Cashout	2,414	0	2,414
Deferred HRSTF Cashout	437	0	437
Resources Payable to Treasury	61	0	61
Superfund - Non-Current			
Unfunded FECA Liability	<u>0</u>	<u>1,355</u>	<u>1,355</u>
Total Superfund	<u>\$ 7,493</u>	<u>\$ 1,355</u>	<u>\$ 8,848</u>
All Other - Current			
Employer Contributions & Payroll Taxes	\$ 12,690	\$ 0	\$ 12,690
WCF Advances	6,510	0	6,510
Other Advances	3,638	0	3,638
Liability for Deposit Funds	(20)	0	(20)
Resources Payable to Treasury	(33)	0	(33)
All Other - Non-Current			
Unfunded FECA Liability	<u>0</u>	<u>6,064</u>	<u>6,064</u>
Total All Other	<u>\$ 22,785</u>	<u>\$ 6,064</u>	<u>\$ 28,849</u>

Other Liabilities - Non-Federal	Covered by <u>Budgetary Resources</u>	Not Covered by <u>Budgetary Resources</u>	<u>Total</u>
Superfund - Current			
Accrued Funded Payroll and Benefits	\$ 7,499	\$ 0	\$ 7,499
Accrued Funded Annual Leave	5,777	0	5,777
Payroll Check Cancellation Liability	3	0	3
Unearned Advances, Non- Federal	30,192	0	30,192
Accrued Unfunded Annual Leave	<u>0</u>	<u>19,553</u>	<u>19,553</u>
Total Superfund	\$ <u>43,471</u>	\$ <u>19,553</u>	\$ <u>63,024</u>

Other Liabilities - Non-Federal	Covered by <u>Budgetary Resources</u>	Not Covered by <u>Budgetary Resources</u>	<u>Total</u>
All Other - Current			
Accrued Funded Payroll and Benefits	\$ 32,570	\$ 0	\$ 32,570
Withholdings Payable	25,278	0	25,278
Accrued Funded Annual Leave	320	0	320
Payroll Check Cancellation Liability	44	0	44
Unearned Advances, Non- Federal	4,729	0	4,729
Liability for Deposit Funds	6,833	0	6,833
Accrued Unfunded Annual Leave	0	93,151	93,151
All Other - Non-Current			
Capital Lease Liability	<u>0</u>	<u>37,585</u>	<u>37,585</u>
Total All Other	\$ <u>69,774</u>	\$ <u>130,736</u>	\$ <u>200,510</u>

Note 13. Leases

The Capital Leases as of September 30, 2000, consist of the following:

Capital Leases:

<u>Summary of Assets Under Capital Lease:</u>	<u>All Others</u>
Land, Buildings and Personal Property	\$ <u>40,992</u>
Accumulated Amortization	\$ <u>11,463</u>

EPA has three capital leases for land and buildings housing scientific laboratories and/or computer facilities. All of these leases include a base rental charge and escalator clauses based upon either rising operating costs and/or real estate taxes. The base operating costs are adjusted annually according to escalators in the Consumer Price Indices published by the Bureau of Labor Statistics (U.S. Department of Labor). EPA has one capital lease for a xerox copier, at a net present value of \$78 thousand, that expires in FY 2002. The three real property leases terminate in fiscal years 2010, 2013 and 2025. The charges are expended out of the Environmental Programs and Management (EPM) appropriation. The total future minimum lease payments of the capital leases are listed below.

<u>Future Payments Due:</u>	<u>All Others</u>
Fiscal Year	
2001	\$ 6,314
2002	6,303
2003	6,295
2004	6,295
2005	6,295
After 5 Years	<u>96,194</u>
Total Future Minimum Lease Payments	127,696
Less: Imputed Interest	<u>(90,111)</u>
Net Capital Lease Liability	\$ <u>37,585</u>
Liabilities not Covered by Budgetary Resources (See Note 10)	\$ <u>37,585</u>

Operating Leases:

The General Services Administration (GSA) provides leased real property (land and buildings) as office space for EPA employees. GSA charges a Standard Level Users Charge that approximates the commercial rental rates for similar properties.

EPA has five direct operating leases for land and buildings housing scientific laboratories and/or computer facilities during FY 2000. In FY 2000 EPA also entered into a one year lease for the dockage of EPA's research vessel "Peter W. Anderson" and warehouse storage of equipment that expires May 31, 2001. Most of these leases include a base rental charge and escalator clauses based upon either rising operating costs and/or real estate taxes. The base operating costs are adjusted annually according to escalators in the Consumer Price Indices published by the Bureau of Labor Statistics (U.S. Department of Labor). One of these leases, which expired on September 30, 2000, was succeeded by a GSA lease agreement for the same space. Two of these leases, which were to terminate during FY 2000, were extended to fiscal years 2002 and 2020. In fiscal year 1997 and 1998, EPA entered into two leases, which terminate in fiscal 2017 and 2003 respectively. The charges are expended out of the EPM appropriation. The total minimum future costs of operating leases are listed below.

<u>Fiscal Year</u>	<u>Superfund</u>	<u>All Others</u>	<u>Total Land & Buildings</u>
2001	\$ 0	\$ 5,427	\$ 5,427
2002	0	2,082	2,082
2003	0	84	84
2004	0	74	74
2005	0	74	74
Beyond 2006	<u>0</u>	<u>994</u>	<u>994</u>
Total Future Minimum Lease Payments	\$ <u>0</u>	\$ <u>8,735</u>	\$ <u>8,735</u>

Note 14. Pension and Other Actuarial Liabilities

FECA provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Annually, EPA is allocated the portion of the long term FECA actuarial liability attributable to the entity. The liability is calculated to estimate the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases. The liability amounts and the calculation methodologies are provided by DOL.

The FECA Actuarial Liability at September 30, 2000, consisted of the following:

	<u>Superfund</u>	<u>All Other</u>
FECA Actuarial Liability	\$ <u>6,637</u>	\$ <u>27,036</u>

The FY 2000 present value of these estimates was calculated using a discount rate of 5.5 percent in years 1 and 2, 5.55 percent in year 3 and 5.6 percent in year 4 and thereafter. The estimated future costs are recorded as an unfunded liability.

Note 15. Cashout Advances and Deferrals, Superfund

Cashouts are funds received by EPA, a state, or another Potentially Responsible Party under the terms of a settlement agreement (e.g., consent decree) to finance response action costs at a specified Superfund site. Under CERCLA Section 122(b)(3), cashout funds received by EPA are placed in site-specific, interest bearing accounts known as special accounts and are used in accordance with the terms of the settlement agreement. Funds placed in special accounts may be used without further appropriation by Congress.

Note 16. Unexpended Appropriations

As of September 30, 2000, the Unexpended Appropriations consisted of the following:

<u>Unexpended Appropriations:</u>	<u>Superfund</u>	<u>All Others</u>	<u>Total</u>
Unobligated			
Available	\$ 0	\$ 1,518,675	\$ 1,518,675
Unavailable	0	83,396	83,396
Undelivered Orders	<u>0</u>	<u>8,517,767</u>	<u>8,517,767</u>
Total	\$ <u>0</u>	\$ <u>10,119,838</u>	\$ <u>10,119,838</u>

Note 17. Amounts Held by Treasury

Amounts Held by Treasury for Future Appropriations consists of amounts held in trusteeship by the U.S. Department of Treasury in the "Hazardous Substance Superfund Trust Fund" (Superfund) and the "Leaking Underground Storage Tank Trust Fund" (LUST).

Superfund (Audited)

Superfund is supported primarily by an environmental tax on corporations, cost recoveries of funds spent to clean up hazardous waste sites, and fines and penalties. Prior to December 31, 1995, the fund was also supported by other taxes on crude and petroleum and on the sale or use of certain chemicals. The authority to assess those taxes and the environmental tax on corporations also expired on December 31, 1995, and has not been renewed by Congress. It is not known if or when such taxes will be reassessed in the future.

The following reflects the Superfund Trust Fund maintained by the U.S. Department of Treasury as of September 30, 2000. The amounts contained in these statements have been provided by the Treasury and are audited. Outlays represent amounts received by EPA's Superfund Trust Fund; such funds are eliminated on consolidation with the Superfund Trust Fund maintained by Treasury.

	<u>EPA</u>	<u>Treasury</u>	<u>Combined</u>
Undistributed Balances			
Available for Investment	\$ 0	\$ 1,986	\$ 1,986
Unavailable for Investment	<u>0</u>	<u>0</u>	<u>0</u>
Total Undisbursed Balance	0	1,986	1,986
Interest Receivables	<u>0</u>	<u>43</u>	<u>43</u>
Investments, Net of Discounts	<u>2,770,969</u>	<u>1,189,301</u>	<u>3,960,270</u>
Total Assets	<u>\$ 2,770,969</u>	<u>\$ 1,191,330</u>	<u>\$ 3,962,299</u>
Liabilities & Equity			
Debt	\$ 0	\$ 0	\$ 0
Equity	<u>2,770,969</u>	<u>1,191,330</u>	<u>3,962,299</u>
Total Liability and Equity	<u>\$ 2,770,969</u>	<u>\$ 1,191,330</u>	<u>\$ 3,962,299</u>
Receipts			
Petroleum-Imported	\$ 0	\$ 176	\$ 176
Petroleum-Domestic	0	2	2
Crude and Petroleum	0	(561)	(561)
Certain Chemicals	0	2,166	2,166
Imported Substances	0	606	606
Corporate Environmental	0	2,679	2,679
Cost Recoveries	0	230,508	230,508
Fines & Penalties	<u>0</u>	<u>725</u>	<u>725</u>
Total Revenue	0	236,301	236,301
Appropriations Received	0	700,000	700,000
Interest Income	<u>0</u>	<u>235,740</u>	<u>235,740</u>
Total Receipts	<u>0</u>	<u>1,172,041</u>	<u>1,172,041</u>
Outlays			
Transfers to EPA	<u>1,628,891</u>	<u>(1,628,891)</u>	<u>0</u>
Total Outlays	<u>1,628,891</u>	<u>(1,628,891)</u>	<u>0</u>
Net Income	<u>\$ 1,628,891</u>	<u>\$ (456,850)</u>	<u>\$ 1,172,041</u>

LUST (Audited)

LUST is supported primarily by a sales tax on motor fuels to clean up LUST waste sites. The following represents LUST Trust Fund as maintained by the U.S. Department of Treasury. The amounts contained in these statements have been provided by Treasury and are audited. Outlays represent appropriations received by EPA's LUST Trust Fund; such funds are eliminated on consolidation with the LUST Trust Fund maintained by Treasury.

	<u>EPA</u>	<u>Treasury</u>	<u>Combined</u>
Undistributed Balances			
Available for Investment	\$ 0	\$ (725)	\$ (725)
Unavailable for Investment	<u>0</u>	<u>0</u>	<u>0</u>
Total Undisbursed Balance	0	(725)	(725)
Taxes Receivable	0	221	221
Interest Receivables	<u>0</u>	<u>26</u>	<u>26</u>
Investments, Net of Discounts	<u>86,283</u>	<u>1,506,348</u>	<u>1,592,631</u>
Total Assets	<u>\$ 86,283</u>	<u>\$ 1,505,870</u>	<u>\$ 1,592,153</u>
Liabilities & Equity			
Accrued Liabilities	\$ 0	\$ 2,892	\$ 2,892
Equity	<u>86,283</u>	<u>1,502,978</u>	<u>1,589,261</u>
Total Liability and Equity	<u>\$ 86,283</u>	<u>\$ 1,505,870</u>	<u>\$ 1,592,153</u>
Receipts			
Highway TF Tax	\$ 0	\$ 172,659	\$ 172,659
Airport TF Tax	0	16,380	16,380
Inland TF Tax	0	612	612
Audit Adjustment	<u>0</u>	<u>(1,710)</u>	<u>(1,710)</u>
Gross Revenue	0	187,941	187,941
Less: Reimbursement to General Fund	<u>0</u>	<u>(6,625)</u>	<u>(6,625)</u>
Net Revenue	0	181,316	181,316
Interest Income	<u>0</u>	<u>78,956</u>	<u>78,956</u>
Net Receipts	<u>0</u>	<u>260,272</u>	<u>260,272</u>
Outlays			
Transfers to EPA	<u>65,718</u>	<u>(65,718)</u>	<u>0</u>
Total Outlays	<u>65,718</u>	<u>(65,718)</u>	<u>0</u>
Net Income	<u>\$ 65,718</u>	<u>\$ 194,554</u>	<u>\$ 260,272</u>

Note 18. Commitments and Contingencies

EPA is a party in various administrative proceedings, legal actions and claims brought by or against it. These include:

- Various personnel actions, suits, or claims brought against the Agency by employees and others.
- Various contract and assistance program claims brought against the Agency by vendors, grantees and others.
- The legal recovery of Superfund costs incurred for pollution cleanup of specific sites, to include the collection of fines and penalties from responsible parties.
- Claims against recipients for improperly spent assistance funds which may be settled by a reduction of future EPA funding to the grantee or the provision of additional grantee matching funds.

Superfund

Under CERCLA +106(a), EPA issues administrative orders that require parties to clean up contaminated sites. CERCLA +106(b) allows a party that has complied with such an order to petition EPA for reimbursement from the Fund of its reasonable costs of responding to the order, plus interest. To be eligible for reimbursement, the party must demonstrate either that it was not a liable party under CERCLA +107(a) for the response action ordered, or that the Agency's selection of the response action was arbitrary and capricious or otherwise not in accordance with law.

There are currently nine CERCLA +106(b) administrative claims and four pending lawsuits. If the claimants are successful, the total losses on the administrative and judicial claims could amount to approximately \$32.6 million and \$5.7 million, respectively. The Environmental Appeals Board has not yet issued final decisions on the administrative claims; therefore, a definite estimate of the amount of the contingent loss cannot be made. The claimants' chance of success in all nine of these outstanding claims is characterized as reasonably possible. The claimants' chance of success in three of the four pending lawsuits is also reasonably possible. The outcome of the remaining lawsuit is considered remote.

There are a number of outstanding CERCLA +106(a) cleanup orders where the recipients of the orders have not yet completed the ordered response actions. Each such recipient could potentially file a claim with EPA for reimbursements under CERCLA +106(b) of its costs of responding to the order once it has completed the ordered actions.

EPA is responsible to indemnify response action contractors (CERCLA +119) for legal costs that will eventually exceed, or have exceeded, the deductible specified in the current indemnification agreements. Such payments by the United States would be recoverable government response costs. EPA has only one claim, which is considered remote.

EPA contractors have submitted response action contractor claims. No claims were material.

All Other

There were no material litigation, asserted or unasserted claims or assessments involving all other appropriated funds of the Agency.

Judgement Fund

In cases that are paid by the U.S. Treasury Judgement Fund, the Agency must recognize the full cost of a claim regardless of who is actually paying the claim. Until these claims are settled or a court judgement is assessed and the Judgement Fund is determined to be the appropriate source for the payment, claims that are probable and estimable must be recognized as an expense and liability of the agency. For these cases, at the time of settlement or judgement, the liability will be reduced and an imputed financing source recognized. See Interpretation of Federal Financial Accounting Standards No. 2, Accounting for Treasury Judgement Fund Transactions.

As of September 30, 2000, \$5 million of Superfund related claims and \$2.9 million of All Other funds' claims were accrued as contingent liabilities under these criteria.

In addition, EPA is party to certain pending litigation upon which EPA believes it has a reasonable legal position. \$336.1 million of Judgement Fund claims in addition to the above accrued amounts are pending.

In the opinion of EPA's management and General Counsel, the ultimate resolution of any legal actions still pending will not materially affect EPA's operations or financial position.

Note 19. Grant Accrual

The EPA has revised the methodology for calculating the accrued grant expense for the fiscal year 2000 financial statements. The methodology uses a model based upon historical grant obligations and the related payment incurred the succeeding years. The model calculates a “what should be disbursed amount” vs. the actual disbursements made in the year. The accrual amount is derived from the results of this model combined with an additive factor which considers the ratio of accruals to disbursements for the last two fiscal years. The accrual for Superfund is \$43.0 million and the All Other grant accrual is \$507.6 million. In the Statement of Net Cost by Goal, the grant accrual amounts are included in “Not Assigned to Goals.”

Note 20. Environmental Cleanup Costs

EPA has four sites that require clean up stemming from its activities. Three of these sites will be paid from the Treasury Judgement fund amounting to \$32 thousand. EPA estimates that clean up on the remaining site will be approximately \$10 thousand. EPA also holds title to a site in Edison, New Jersey, which was formerly an Army Depot. While EPA did not cause the contamination, the Agency could potentially be liable for a portion of the cleanup costs. However, it is expected that the Department of Defense and the General Services Administration will bear all or most of the cost of remediation.

Accrued Cleanup Cost

EPA has fourteen sites that will require future clean up associated with permanent closure. The estimated cost will be approximately \$15.5 million. Since the cleanup costs associated with permanent closure are not primarily recovered through user fees, EPA has elected to recognize the estimated total cleanup cost as a liability upon implementation and record changes to the estimate in subsequent years. The FY 2000 estimate for unfunded cleanup costs decreased by \$128 thousand from the FY 1999 estimate. There was an increase of approximately \$1.3 million for funded cleanup costs for FY 2000. EPA also could be potentially liable for cleanup costs at a GSA-leased site; however, the amounts are not known. Of the \$15.5 million in estimated cleanup costs, approximately \$10.9 million represents the estimated expense to close the current RTP research facility. These costs will be incurred within the next three years. The remaining amount represents the future decontamination and decommissioning costs of EPA's other research facilities.

Note 21. Superfund State Credits

Authorizing statutory language for Superfund and related Federal regulations require States to enter into Superfund State Contracts (SSCs) when EPA assumes the lead for a remedial action in their State. The SSC defines the State's role in the remedial action and obtains the State's assurance that they will share in the cost of the remedial action. Under Superfund's authorizing statutory language, States will provide EPA with a ten percent cost share for remedial action costs incurred at privately owned or operated sites, and at least fifty percent of all response activities (i.e., removal, remedial planning, remedial action, and enforcement) at publicly operated sites. In some cases, States may use EPA approved credits to reduce all or part of their cost share requirement that would otherwise be borne by the States. Credit is limited to State site-specific expenses EPA has determined to be reasonable, documented, direct out-of-pocket expenditures of non-Federal funds for remedial action. Once EPA has reviewed and approved a State's claim for credit, the State must first apply the credit at the site where it was earned. The State may apply any excess/remaining credit to another site when approved by EPA. As of September 30, 2000, total remaining State credits have been estimated at \$12.6 million.

Note 22. Superfund Preauthorized Mixed Funding Agreements

Under Superfund preauthorized mixed funding agreements, potentially responsible parties (PRPs) agree to perform response actions at their sites with the understanding that EPA will reimburse the PRPs a certain percentage of their total response action costs. EPA's authority to enter into mixed funding agreements is provided under Section 111(a)(2) of the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) of 1980. Under Section 122(b)(1) of CERCLA, as amended by the Superfund Amendments and Reauthorization Act (SARA)

of 1986, a PRP may assert a claim against the Superfund Trust Fund for a portion of the costs they incurred while conducting a preauthorized response action agreed to under a mixed funding agreement. As of September 30, 2000, EPA had 12 outstanding preauthorized mixed funding agreements with obligations totaling \$40.2 million. A liability is not recognized for these amounts until all work has been performed by the PRP and has been approved by EPA for payment. Further, EPA will not disburse any funds under these agreements until the PRP's application, claim, and claims adjustment processes have been reviewed and approved by EPA.

Note 23. Income and Expenses from other Appropriations

The Statement of Net Cost reports program costs that include the full costs of the program outputs and consist of the direct costs and all other costs that can be directly traced, assigned on a cause and effect basis, or reasonably allocated to program outputs.

During Fiscal Year 2000, EPA had three appropriations which funded a variety of programmatic and non-programmatic activities across the Agency, subject to statutory requirements. The Environmental Programs and Management (EPM) appropriation was created to fund personnel compensation and benefits, travel, procurement, and contract activities. Two prior year appropriations, Program and Research Operations (PRO) and Abatement Control and Compliance (AC&C) generated expenses. PRO funded travel, personnel compensation and benefits. AC&C funded procurement and contract activities.

All of the expenses from EPM, PRO and AC&C were distributed among EPA's two Reporting Entities: Superfund and All Others. This distribution is calculated using a combination of specific identification of expenses to Reporting Entities, and a weighted average that distributes expenses proportionately to total programmatic expenses.

As illustrated below, this estimate does not impact the net effect of the Statement of Net Costs.

	Income From Other Appropriations	Expenses From Other Appropriations	Net Effect
Superfund	\$ 31,270	\$ (31,270)	\$ 0
All Others	(31,270)	31,270	0
Total	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

Note 24. Custodial Non-Exchange Revenues

EPA uses the accrual basis of accounting for the collection of fines, penalties and miscellaneous receipts. Collectibility by EPA of the fines and penalties is based on the responsible parties' willingness and ability to pay.

Fines, Penalties and Other Misc Revenue (EPA) \$ 86,590

Accounts Receivable for Fines, Penalties and Other Miscellaneous Receipts

Accounts Receivable	\$ 154,803
Less: Allowance for Doubtful Accounts	<u>52,336</u>
Total	<u>\$ 102,467</u>

Note 25. Statement of Budgetary Resources

A reconciliation of budgetary resources, obligations incurred, and outlays, as presented in the audited Statement of Budgetary Resources, to amounts included in the Budget of the United States Government for the year ended September 30, 2000, is as follows:

	<u>Budgetary Resources</u>	<u>Obligations Incurred</u>	<u>Outlays</u>
<u>Superfund</u>			
Statement of Budgetary Resources	\$ 2,151,875	\$ 1,701,337	\$ 1,526,587
Adjustments to Unliquidated Obligations, Unfilled Customer Orders and Other	<u>(328)</u>	<u>(1,744)</u>	<u>1,000</u>
Budget of the United States Government	<u>\$ 2,151,547</u>	<u>\$ 1,699,593</u>	<u>\$ 1,527,587</u>
<u>All Other</u>			
Statement of Budgetary Resources	\$ 8,932,823	\$ 7,158,665	\$ 6,602,265
Less: Funds Reported by Other Federal Entities	(24,778)	(23,835)	(24,545)
Adjustments to Unliquidated Obligations, Unfilled Customer Orders and Other	<u>66,618</u>	<u>67,907</u>	<u>57</u>
Budget of the United States Government	<u>\$ 8,974,663</u>	<u>\$ 7,202,737</u>	<u>\$ 6,577,777</u>

Note 26. Adjustments

For the Superfund Trust Fund this amount represents recoveries of prior year obligations of \$201,660 thousand less \$2,288 thousand in canceled authority. For All Others, this amount represents recoveries of prior year obligations of \$111,767 thousand and \$615 thousand of other adjustments to beginning unobligated balances, less rescinded authority of \$28,848 thousand, and \$55,687 thousand in canceled authority.

Note 27. Unobligated Balances Available

The Superfund Trust Fund has an unobligated balance of \$449,538 thousand in unexpired authority and \$1 million in expired authority. All Others has an unobligated balance of \$1,644,998 thousand in unexpired authority and \$129,160 thousand in expired authority. The unexpired authority is available to be apportioned by the Office of Management and Budget for new obligations at the beginning of FY 2001. Expired authority is available for upward adjustments of obligations incurred as of the end of the fiscal year.

Note 28. Obligated Balance, Net - End of Period

Undelivered Orders, unpaid, at the end of the period are \$2,091,767 thousand for the Superfund Trust Fund and \$8,657,913 thousand for All Others.

Note 29. Difference in Outlays Between Statement of Budgetary Resources and SF-133

Outlays between the Statement of Budgetary Resources and the SF-133 differ by \$1 million for Superfund, due to an advance that was refunded and reported on the SF-133 last year but not recorded and reported on the Statement of Budgetary Resources until this year.

Note 30. Statement of Financing

Increases in Unfunded Liabilities relate to changes in unfunded annual leave, environmental liabilities, contingent liabilities and the Federal Employees Compensation Act (FECA) special benefit fund. For Superfund and All Others, the changes totaled \$7.0 million and \$12.3 million, respectively and are reflected in Financing Sources Yet to Be Provided.

Note 31. Beginning Unobligated Balances - All Other Statement of Budgetary Resources

All Others in the Statement of Budgetary Resource contained some previously canceled funds in the beginning unobligated balance brought forward from FY 1999. The amounts from canceled funds were approximately \$16.2 million. These balances have been eliminated this year in the Adjustments on the Statement of Budgetary Resources.

Note 32. Change in Accounting for Trust Funds

During FY 2000, in compliance with Statement of Federal Financial Accounting Standard No. 7 (Accounting for Revenue and Other Financing Sources), the U. S. Standard General Ledger Board issued definitive guidance for trust fund accounting and added new Standard General Ledger accounts to further distinguish trust fund transactions from other funds. The EPA implemented these changes for all trust funds. These changes eliminate the use of Unexpended Appropriations and Appropriations Used for trust funds, and indicate the inclusion of only the Cumulative Results of Operations account in Net Position for trust funds.

The changes affect transactions in this manner: In lieu of increases to Unexpended Appropriations, amounts appropriated or transferred to the trust funds are recorded in new accounts as Trust Fund Financing Sources-Transfers In. Amounts transferred out no longer decrease Unexpended Appropriations, but are recorded in new accounts as Trust Fund Financing Sources -Transfers Out. These new accounts are reported on the Statement of Changes in Net Position as Other Financing Sources, and are closed out at year end to Cumulative Results of Operations. Expenditures from trust funds are still reported as expenses or purchases of capital assets and reflected in budgetary expenditures, but are no longer reported as increases to Appropriations Used and decreases to Unexpended Appropriations.

The cumulative effect of these changes on the accounts was to move all prior year's balances in Unexpended Appropriations for trust funds into Cumulative Results of Operations. This cumulative effect is reported on a separate line on the Statement of Changes in Net Position this fiscal year. The decreases to Unexpended Appropriations for trust funds are detailed below:

	<u>Superfund</u>	<u>All Other</u>
Hazardous Substance Superfund No-Year Trust Fund	\$ 2,607,783	\$ 0
Superfund Annual Funds	49,048	0
Leaking Underground Storage Tank Trust Fund	0	81,830
Oil Spill Response Trust Fund	0	9,690
Miscellaneous Contributed Funds Trust Fund	<u>0</u>	<u>76</u>
Totals	<u>\$2,656,831</u>	<u>\$91,596</u>

Note 33. Costs Not Assigned to Goals

On the Statement of Net Cost by Goal, \$145.5 million in gross costs were not assigned to goals. This amount was comprised of a \$106.4 million increase to the year-end grant accruals, \$15.2 million in unfunded expenses, \$19.9 million in depreciation expenses that were not assigned, \$3.0 million in bad debt expense, and \$1 million in miscellaneous expenses.

Note 34. Transfers in and out, Statement of Changes in Net Position

The consolidated amounts shown as transfers-in on the Statement of Changes in Net Position are comprised of transfers from other Federal agencies in accordance with applicable legislation. The consolidated amounts shown as transfers-out are nonexpenditure transfers to other Hazardous Substance Superfund allocation agency funds, such as HHS and Labor.

Note 35. Imputed Financing

In accordance with Statement of Federal Financial Accounting Standard No. 5 (Liabilities of the Federal Government), Federal agencies must recognize the portion of employees' pensions and other retirement benefits to be paid by the Office of Personnel Management (OPM) trust funds. These amounts are recorded as imputed costs and imputed financing for the agency. Each year the OPM provides federal agencies with cost factors to calculate these imputed costs and financing that apply to the current year. These cost factors are multiplied by the current year's salaries or number of employees, as applicable, to provide an estimate of the imputed financing that the OPM trust funds will provide for each agency.

Note 36. Change in Accounting for Cashout Interest, Superfund

Per an agreement dated October 3, 1996 between the Office of Management and Budget (OMB) and the EPA, the EPA is allowed additional budget authority for interest earnings on Cashout (Special Account) collections for Superfund. The authority for interest earnings had previously been classified as Cashout Advances and Deferrals, Superfund, on the Consolidating Balance Sheet and as Spending Authority from Offsetting Collections on the Combined Statement of Budgetary Resources. In FY 2000, the beginning balance for interest earnings on Special Accounts was reclassified from Cashout Advances and Deferrals, Superfund to Net Position on the Consolidating Balance Sheet for Superfund. The change is consistent with guidance from OMB to treat the interest as permanently appropriated and is consistent with definitive guidance for trust fund accounting issued by the U. S. Standard General Ledger Board. This change is also in compliance with Statement of Federal Financial Accounting Standard No. 7 (Accounting for Revenue and Other Financing Sources).

For FY 2000, interest earnings that became available during the fiscal year are recorded in Trust Fund Financing Sources - Transfers In for EPA, and are then eliminated against Treasury's Transfers-Out in the consolidation of the Treasury and EPA funds. The current year's earnings are included as Budget Authority on the Combined Statement of Budgetary Resources for Superfund.

The amount available as of September 30, 2000 for Cashout Interest authority is as follows:

	Superfund
Cashout Interest reclassified from Cashout Advances and Deferrals, Superfund, October 1, 1999	\$ 85,382
Cashout Interest Authority Accrued FY 2000	21,670
Less: FY 2000 Drawdown of Authority	(780)
Total	\$ 106,272

**Environmental Protection Agency
Required Supplemental Information
As of September 30, 2000
(Dollars in Thousands)
(Unaudited)**

Deferred Maintenance

The EPA classifies property, plant, and equipment as follows: 1) EPA-Held Equipment, 2) Contractor-Held Equipment, 3) Land and Buildings, and, 4) Capital Leases. The condition assessment survey method of measuring deferred maintenance is utilized. The Agency adopts requirements or standards for acceptable operating condition in conformance with industry practices. No deferred maintenance was reported for any of the four categories.

Intragovernmental Assets

Intragovernmental amounts represent transactions between all federal departments and agencies and are reported by trading partner (entities that EPA did business with during FY 2000).

EPA confirmed its investment balances with the Bureau of the Public Debt, the Department of the Treasury. In addition, EPA sent out requests to trading partners to reconcile and confirm intragovernmental receivables and advances. Data was received from the Department of Defense, Department of Energy, and Tennessee Valley Authority. (The Department of Defense includes the Navy, Army, and Air Force.) The U.S. Army Corps of Engineers was not able to give us detailed data to be able to reconcile asset balances.

Trading Partner Code	Agency	Investments		Accounts Receivable		Other	
		Superfund	All Other	Superfund	All Other	Superfund	All Other
04	Government Printing Office	\$ 0	\$ 0	\$ 0	\$ 43	\$ 65	\$ 7,409
12	Department of Agriculture			355	146		
13	Department of Commerce				48		
14	Department of Interior			13,521			
15	Department of Justice			80			
17	Department of the Navy				248		
18	U. S. Postal Service						43
19	Department of State				70		
20	Department of the Treasury	3,960,313	1,593,357		222		
21	Department of the Army			7,798			
31	US Nuclear Regulatory Commission				20		
47	General Services Administration			12			
57	Department of the Air Force				223		
58	Federal Emergency Management Agency				1,205		
61	Consumer Product Safety Commission				8		
64	Tennessee Valley Authority				607		

Trading Partner Code	Agency	Investments		Accounts Receivable		Other	
		Superfund	All Other	Superfund	All Other	Superfund	All Other
68	EPA (between Superfund and All Other)				4,191	6,510	
69	Department of Transportation				10,378		
75	Department of Health and Human Services				415		
86	Department of Housing and Urban Development				943		
93	Federal Mediation and Conciliation Service				19		
96	US Army Corps of Engineer				1,022	15,850	
97	US Department of Defense			10,769	1,217		
00	Unassigned	<u>0</u>	<u>0</u>	<u>8,136</u>	<u>13,346</u>	<u>(636)</u>	<u>0</u>
Total		<u>\$3,960,313</u>	<u>\$1,593,357</u>	<u>\$40,671</u>	<u>\$34,371</u>	<u>\$21,789</u>	<u>\$7,452</u>

Intragovernmental Liabilities

EPA received a few requests for intragovernmental liabilities reconciliation from trading partners. EPA was able to confirm balances with the National Science Foundation (49), the Office of Personnel Management (24), the Department of the Treasury (20), and the Department of Labor (16). However, some agencies' requests did not have the data (such as interagency agreement numbers) that EPA needed to do the research.

Trading Partner Code	Agency	Accounts Payable		Accrued Liabilities		Other Liabilities	
		Superfund	All Other	Superfund	All Other	Superfund	All Other
03	Library of Congress	\$ 0	\$ 0	\$ 11	\$ 181	\$ 0	\$ 0
04	Government Printing Office	4	16	61	988		
11	Executive Office of the President				40		
12	Department of Agriculture			39	876	711	1,615
13	Department of Commerce	1,021		393	2,286		152
14	Department of Interior	901		3,440	2,711		36
15	Department of Justice	617		5,896	186	578	
16	Department of Labor	2,258		73	24	1,355	6,064
17	Department of the Navy					355	
18	United States Postal Service			9			
19	Department of State			5	1,152		
20	Department of the Treasury			13	3,014	742	2,945
21	Department of the Army				2	503	
24	Office of Personnel Management			56	488	1,865	8,162
31	US Nuclear Regulatory Commission			1	9		20
33	Smithsonian Institution				33		

Trading Partner Code	Agency	Accounts Payable		Accrued Liabilities		Other Liabilities	
		Superfund	All Other	Superfund	All Other	Superfund	All Other
47	General Services Administration			4,618	23,935		
49	National Science Foundation			10	234		
56	Central Intelligence Agency				37		
57	Department of the Air Force					1,256	
58	Federal Emergency Management Agency	15,395		6			
59	National Foundation on the Arts and the Humanities			5			
63	National Labor Relations Board				1		
64	Tennessee Valley Authority			1	112		50
68	EPA (between Superfund and All Others)			4,191			6,510
69	Department of Transportation			1,558	364		
72	Agency for International Development						
73	Small Business Administration				34		
75	Department of Health and Human Services	51,841		8,791	6,440		
80	National Aeronautics and Space Administration				231		
86	Department of Housing and Urban Development						2,922
88	National Archives & Records Administration				1		
89	Department of Energy			490	4,032		14
91	Department of Education				3		
95	Independent Agencies			28	11		
96	US Army Corps of Engineers	1,202	694	21,357	1,136		314
97	Office of the Secretary of Defense	339	140	715	830		52
00	Unassigned	<u>1,889</u>	<u>656</u>	<u>(19)</u>	<u>1,189</u>	<u>1,483</u>	<u>(7)</u>
Total		<u>\$75,467</u>	<u>\$1,506</u>	<u>\$51,748</u>	<u>\$50,580</u>	<u>\$8,848</u>	<u>\$28,849</u>

For other intragovernmental liabilities, \$37,922 thousand in Debt and \$102,469 thousand in Custodial Liability is assigned to the Department of the Treasury (trading partner Code 20).

Intragovernmental Revenues and Costs

EPA's intragovernmental earned revenues are not reported by trading partners because they are below OMB's threshold of \$500 million.

	<u>Superfund</u>	<u>All Others</u>
Intragovernmental Earned Revenue	(\$2,249)	\$63,240
Associated Costs to generate Above Revenue (Budget Functional Classification 300)	(2,249)	63,240

Environmental Protection Agency
Required Supplemental Information
Supplemental Statement of Budgetary Resources
As of September 30, 2000
(Dollars in Thousands)

	Unaudited						
	STAG	Environmental Programs & Management	Science & Technology	FIFRA	LUST Trust Fund	Miscellaneous All Others	Consolidated All Others
Budgetary Resources:							
Budget Authority	\$ 3,469,250	\$ 1,899,021	\$ 647,500	\$ 0	\$ 70,000	\$ 834,235	\$ 6,920,006
Unobligated Balances - Beginning of the Period	1,265,880	219,803	159,175	11,552	3,570	14,695	1,674,675
Net Transfers, Prior Year Balance	0	0	0	0	0	(977)	(977)
Spending Authority from Offsetting Collections	13,489	48,345	45,490	18,593	42	185,313	311,272
Adjustments	52,088	(1,730)	(4,434)	(2,228)	1,472	(17,321)	27,847
Total Budgetary Resources	<u>\$ 4,800,707</u>	<u>\$ 2,165,439</u>	<u>\$ 847,731</u>	<u>\$ 27,917</u>	<u>\$ 75,084</u>	<u>\$ 1,015,945</u>	<u>\$ 8,932,823</u>
Status of Budgetary Resources:							
Obligations Incurred	\$ 3,582,074	\$ 1,894,522	\$ 667,581	\$ 23,321	\$ 70,753	\$ 920,414	\$ 7,158,665
Unobligated Balances - Available	1,218,633	171,276	154,864	4,596	4,245	91,384	1,644,998
Unobligated Balances-Not Available	0	99,641	25,286	0	86	4,147	129,160
Total Status of Budgetary Resources	<u>\$ 4,800,707</u>	<u>\$ 2,165,439</u>	<u>\$ 847,731</u>	<u>\$ 27,917</u>	<u>\$ 75,084</u>	<u>\$ 1,015,945</u>	<u>\$ 8,932,823</u>
Outlays:							
Obligations Incurred	\$ 3,582,074	\$ 1,894,522	\$ 667,581	\$ 23,321	\$ 70,753	\$ 920,414	\$ 7,158,665
Less: Spending Authority from Offsetting Collections and	86,462	75,206	49,444	16,366	2,108	190,603	420,189
Obligated Balance, Net - Beginning of the Period	7,570,173	796,486	511,949	(926)	79,306	196,245	9,153,233
Less: Obligated Balance, Net - End of the Period	7,874,156	750,109	500,950	1,544	83,976	78,709	9,289,444
Total Outlays	<u>\$ 3,191,629</u>	<u>\$ 1,865,693</u>	<u>\$ 629,136</u>	<u>\$ 4,485</u>	<u>\$ 63,975</u>	<u>\$ 847,347</u>	<u>\$ 6,602,265</u>

**Environmental Protection Agency
Required Supplemental Information
Working Capital Fund
Supplemental Balance Sheet
As of September 30, 2000
(Dollars in Thousands)**

ASSETS	<u>Unaudited</u>
Intragovernmental:	
Fund Balance With Treasury	\$ 52,509
Accounts Receivable, Net	28,702
Other	<u>47</u>
Total Intragovernmental	81,258
Inventory and Related Property, Net	46
General Property, Plant and Equipment, Net	9,646
Other	<u>1</u>
Total Assets	\$ <u>90,951</u>
LIABILITIES	
Intragovernmental:	
Other	\$ <u>47,555</u>
Total Intragovernmental	47,555
Accounts Payable	2,578
Other	<u>19,034</u>
Total Liabilities	<u>69,167</u>
NET POSITION	
Cumulative Results of Operations	<u>21,784</u>
Total Net Position	<u>21,784</u>
Total Liabilities and Net Position	\$ <u>90,951</u>

**Environmental Protection Agency
Required Supplemental Information
Working Capital Fund
Supplemental Statement of Net Cost
For the Year Ended September 30, 2000
(Dollars in Thousands)**

	<u>Unaudited</u>
COSTS:	
Intragovernmental	\$ 8,154
With the Public	<u>114,718</u>
Total Costs	122,872
Less:	
Earned Revenues	<u>(117,079)</u>
Net Cost of Operations	\$ <u><u>5,793</u></u>

**Environmental Protection Agency
Required Supplemental Information
Working Capital Fund
Supplemental Statement of Changes in Net Position
For the Year Ended September 30, 2000
(Dollars in Thousands)**

	<u>Unaudited</u>
Net Cost of Operations	\$ 5,793
Financing Sources (Other Than Exchange Revenues):	
Imputed Financing	5,397
Transfers-In	439
Transfers-Out	<u>(439)</u>
Net Results of Operations	(396)
 Prior-Period Adjustments	 <u>(8,961)</u>
Net Change in Cumulative Results of Operations	(9,357)
 Net Position - Beginning of the Period	 <u>31,141</u>
 Net Position - End of the Period	 \$ <u>21,784</u>

**Environmental Protection Agency
Required Supplemental Information
Working Capital Fund
Supplemental Statement of Budgetary Resources
For the Year Ended September 30, 2000
(Dollars in Thousands)**

Budgetary Resources	<u>Unaudited</u>
Unobligated Balances, Beginning of the Period	\$ 6,941
Spending Authority from Offsetting Collections	<u>136,065</u>
Total Budgetary Resources	<u>\$ 143,006</u>
Status of Budgetary Resources	
Obligations Incurred	\$ 121,186
Unobligated Balances Available	<u>21,820</u>
Total, Status of Budgetary Resources	<u>\$ 143,006</u>
Outlays	
Obligations Incurred	\$ 121,186
Less: Spending Authority from Offsetting Collections and Adjustments	<u>(136,065)</u>
Subtotal	(14,879)
Obligated Balance, Net - Beginning of the Period	30,124
Less: Obligated Balance, Net - End of the Period	<u>(30,688)</u>
Total Outlays	<u>\$ (15,443)</u>

**Environmental Protection Agency
Required Supplemental Information
Working Capital Fund
Supplemental Statement of Financing
For the Year Ended September 30, 2000
(Dollars in Thousands)**

Obligations and Nonbudgetary Resources	<u>Unaudited</u>
Obligations Incurred	\$ 121,186
Less: Spending Authority for Offsetting Collections and Adjustments	
Earned Reimbursements	
Collected	(116,923)
Receivable from Federal Sources	(236)
Change in Unfilled Orders - (Decreases)/Increases	(18,906)
Financing Imputed for Cost Subsidies	5,397
Exchange Revenue not in the Entity's Budget	<u>66</u>
Total Obligations as Adjusted and Nonbudgetary Resources	<u>(9,416)</u>
 Resources that Do Not Fund Net Cost of Operations	
Change in Amount of Goods, Services and Benefits Ordered but	
Yet Received or Provided - (Increases)/Decreases	(2,488)
Change in Unfilled Customers Orders, etc. - Increases/(Decreases)	18,907
Costs Capitalized on the Balance Sheet	
General Plant, Property and Equipment	(9,102)
Purchases of Inventory	(93)
Prior Period Adjustments of Capitalized Assets	<u>3,127</u>
Total Resources that Do Not Fund Net Costs of Operations	<u>10,351</u>
 Components of Costs of Operations that Do Not Require or Generate Resources	
Depreciation and Amortization	<u>4,767</u>
Total Costs That Do Not Require Resources	<u>4,767</u>
Financing Sources Yet to be Provided	<u>91</u>
Net Costs of Operations	<u><u>\$ 5,793</u></u>

**Environmental Protection Agency
Required Supplemental Stewardship Information
For the Year Ended September 30, 2000
(Dollars in Thousands)**

INVESTMENT IN THE NATION'S RESEARCH AND DEVELOPMENT:

Public and private sector institutions have long been significant contributors to our nation's environment and human health research agenda. EPA's Office of Research and Development, however, is unique among scientific institutions in this country in combining research, analysis, and the integration of scientific information across the full spectrum of health and ecological issues and across both risk assessment and risk management. Science enables us to identify the most important sources of risk to human health and the environment, and by so doing, informs our priority-setting, ensures credibility for our policies, and guides our deployment of resources. It gives us the understanding and technologies we need to detect, abate, and avoid environmental problems. Science provides the crucial underpinning for EPA decisions and challenges us to apply the best available science and technical analysis to our environmental problems and to practice more integrated, more efficient, and more effective approaches to reducing environmental risks.

Among the Agency's highest research priorities is a program to expand the understanding of near- and long-term effects of the environment on children. Another priority is the Particulate Matter (PM) research program, which focuses on review, implementation, and eventual attainment of the National Ambient Air Quality Standards (NAAQS). For FY 2000, the full cost of the Agency's Research and Development activities totaled almost \$601 million. Below is a breakout of the expenses (dollars in thousands):

	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>
Programmatic Expenses	507,828	543,777	541,117
Allocated Expenses	53,322	58,728	59,523

INVESTMENT IN THE NATION'S INFRASTRUCTURE:

The Agency makes significant investments in the Nation's drinking water and clean water infrastructure. The investments are the result of three programs: The Construction Grant Program which is being phased out, and two State Revolving Fund (SRF) programs.

Construction Grants Program: During the 1970s and 1980s, the Construction Grants Program was a source of Federal funds, providing more than \$60 billion of direct grants for the construction of public wastewater treatment projects. These projects, which constituted a significant contribution to the nation's water infrastructure, included sewage treatment plants, pumping stations, and collection and intercept sewers, rehabilitation of sewer systems, and the control of combined sewer overflows. The construction grants led to the improvement of water quality in thousands of municipalities nationwide.

Congress set 1990 as the last year that funds would be appropriated for Construction Grants. Projects funded in 1990 and prior will continue until completion. Beyond 1990, EPA shifted the focus of municipal financial assistance from grants to loans that are provided by State Revolving Funds.

State Revolving Funds: The Environmental Protection Agency provides capital, in the form of capitalization grants, to state revolving funds which state governments use to make loans to individuals, businesses, and governmental entities for the construction of wastewater and drinking water treatment infrastructure. When the loans are repaid to the state revolving fund, the collections are used to finance new loans for new construction projects. The capital is reused by the states and is not returned to the Federal Government.

The Agency is also appropriated funds to finance the construction of infrastructure outside the Revolving Funds. These are reported below as Other Infrastructure Grants.

The Agency's expenses related to investments in the Nation's Water Infrastructure are outlined below (dollars in thousands):

	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>
Construction Grants	444,817	414,528	55,766
Clean Water SRF	1,109,017	925,744	1,564,894
Safe Drinking Water SRF	94,936	387,429	588,116
Other Infrastructure Grants	138,363	245,606	212,124
Allocated Expenses	187,649	213,117	266,299

STEWARDSHIP LAND

The Agency acquires title to certain land and land rights under the authorities provided in Section 104 (J) CERCLA related to remedial clean-up sites. The land rights are in the form of easements to allow access to clean-up sites or to restrict usage of remediated sites. In some instances, the Agency takes title to the land during remediation and returns it to private ownership upon the completion of clean-up.

As of September 30, 2000, the Agency possesses the following land and land rights:

Superfund Sites with Easements	
Beginning Balance	24
Additions	1
Withdrawals	<u>0</u>
Ending Balance	<u>25</u>
Superfund Sites with Land acquired	
Beginning Balance	20
Additions	3
Withdrawals	<u>0</u>
Ending Balance	<u>23</u>

HUMAN CAPITAL

Agencies are required to report expenses incurred to train the public with the intent of increasing or maintaining the nation's economic productive capacity. Training, public awareness, and research fellowships are components of many of the Agency's programs, and are effective in achieving the Agency's mission of protecting public health and the environment, but the focus is on enhancing the nation's environmental, not economic, capacity.

The Agency's expenses related to investments in the Human Capital are outlined below (dollars in thousands):

	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>
Training and Awareness Grants	39,131	46,630	49,265
Fellowships	11,084	10,239	9,570
Allocated Expenses	5,273	6,142	6,472

**OIG'S REPORT
ON EPA'S FY 2000
FINANCIAL STATEMENTS**

The Agency's FY 2000 Annual Report includes a summary of the Office of Inspector General Audit Report on EPA's Fiscal 2000 Financial Statements (2001-1-00107). For a complete copy of the report, please contact:

**U.S. Environmental Protection Agency
Office of Inspector General
Financial Audit Division (2422)
1200 Pennsylvania Avenue, N.W.
Washington, DC 20460**

**Telephone: 202-260-1397
Facimile: 202-260-1398**

**Electronic version of complete audit report
available at: <http://www.epa.gov/oigearth>**

Inspector General's Report on EPA's Fiscal 2000 Financial Statements

The Administrator
U.S. Environmental Protection Agency

We have audited the consolidating balance sheet of the U.S. Environmental Protection Agency and its subsidiary funds, the Superfund Trust Fund (Superfund) and All Other Appropriated Funds (All Other) as of September 30, 2000, and the related consolidating statements of net cost and changes in net position, consolidated statement of net cost by goal, combined statement of budgetary resources, combined statement of financing, and consolidated statement of custodial activity for the year then ended. These financial statements are the responsibility of EPA's management. Our responsibility is to express an opinion on these financial statements based upon our audit.

We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial statements contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget Bulletin 01-02, Audit Requirements for Federal Financial Statements. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements include expense of grantees, contractors and other Federal agencies. Our audit work pertaining to these expenses included testing only within EPA. Audits of grants, contracts and interagency agreements performed at a later date may disclose questioned costs of an undeterminable amount at this time. In addition, the United States Treasury collects and accounts for excise taxes that are deposited into the Superfund and Leaking Underground Storage Tank Trust Funds.¹ The United States Treasury is also responsible for investing amounts not needed for current disbursements and transferring funds to EPA as authorized in legislation. Since the United States Treasury, and not EPA, is responsible for these activities, our audit work did not cover these activities.

The Office of Inspector General (OIG) is not independent with respect to amounts pertaining to its operations that are presented in the financial statements. The amounts included for the OIG are not material to EPA's financial statements. The OIG is organizationally independent with respect to all other assets of the Agency's activities.

In our opinion, the consolidating financial statements present fairly the consolidated and individual assets, liabilities, net position, net cost, net cost by goal, changes in net position, budgetary resources, reconciliation of net cost to budgetary obligations, and custodial activity of the U.S. Environmental

¹ The Leaking Underground Storage Tank Trust Fund is included in the All Other Appropriated Funds column of the financial statements.

Protection Agency and its subsidiary funds, the Superfund Trust Fund and All Other Appropriated Funds, as of and for the year ended September 30, 2000, in accordance with generally accepted accounting principles.

Review of EPA's Required Supplemental Stewardship Information, Required Supplemental Information, and Management Discussion and Analysis

We inquired of EPA's management as to their methods of preparing its RSSI, Required Supplemental Information, and Management Discussion and Analysis, and reviewed this information for consistency with the financial statements. However, our audit was not designed to express an opinion, and accordingly, we do not express an opinion.

We did not identify any material inconsistencies between the information presented in EPA's financial statements and the information presented in EPA's RSSI, Required Supplemental Information, and Management Discussion and Analysis. The January 7, 2000, technical amendments to OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, require agencies to report, as Required Supplemental Information, their intra-governmental assets and liabilities by federal trading partner. We did find that, through no fault of EPA, other Federal agencies were unable to reconcile EPA's reported transactions with their records. Attachment 2 of the OIG's complete audit report on EPA's FY 2000 financial statements provides additional details on this issue.

Evaluation of Internal Controls

As defined by OMB, internal control, as it relates to the financial statements, is a process, effected by the Agency's management and other personnel, designed to provide reasonable assurance that the following objectives are met:

Reliability of financial reporting - Transactions are properly recorded, processed, and summarized to permit the timely and reliable preparation of the financial statements and RSSI in accordance with generally accepted accounting principles; and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.

Reliability of performance reporting - Transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.

Compliance with applicable laws and regulations - Transactions are executed in accordance with laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements or RSSI; and any other laws, regulations, and government-wide policies identified by OMB.

In planning and performing our audit, we considered EPA's internal controls over financial reporting by obtaining an understanding of the Agency's internal controls, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited

our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, as supplemented by an OMB memorandum dated January 4, 2001, *Revised Implementation Guidance for the Federal Financial Management Improvement Act*. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal controls, and accordingly, we do not express an opinion on internal controls.

Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. However, we noted certain matters discussed below involving the internal control and its operation that we consider to be reportable conditions. However, none of the reportable conditions is believed to be a material weakness.

In addition, we considered EPA's internal control over the RSSI by obtaining an understanding of the Agency's internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on these internal controls, and accordingly, we do not express an opinion on such controls.

Finally, with respect to internal control related to performance measures presented in *EPA's Fiscal Year 2000 Annual Report*, Section 1, Overview and Analysis (which addresses requirements for a Management's Discussion and Analysis), we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and accordingly, we do not express an opinion on such controls.

Reportable Conditions

Reportable conditions are internal control weakness matters coming to the auditor's attention that, in the auditor's judgment, should be communicated because they represent significant deficiencies in the design or operation of internal control that could adversely affect the organization's ability to meet the OMB objectives for financial reporting discussed above.

In evaluating the Agency's internal control structure, we identified seven reportable conditions in the following areas:

Process for Preparing Financial Statements

The Agency significantly improved the preparation process for its fiscal 2000 financial statements compared to prior year submissions. However, the financial statement preparation process did not provide the needed result, an unqualified audit opinion, without difficulty. Problems were encountered by the Agency in fairly presenting grant accrual amounts. Additionally, some other material items were identified by auditors and then jointly resolved so they would not affect the audit opinion.

Accounting for Capitalized Property

For a number of years, we have reported that EPA needs to make improvements in its accounting for property. During fiscal 2000, although the Agency continued to take action to correct weaknesses in this area, we determined that the Agency needs to continue its efforts to improve its accounting for property. Specifically, we found that:

- property was not timely or accurately entered in the Fixed Assets Subsystem (FAS);²
- there were weaknesses in the Agency's process for reconciling property information in the Integrated Financial Management System (IFMS) with that in FAS;
- financial statement balances for contractor-held property were incorrect;
- contractor-held property transferred was misclassified; and
- real property values were not accurately recorded.

EPA's Process for Reviewing Unliquidated Obligations

EPA did not timely identify and deobligate inactive unliquidated obligations during its annual review. As a result of weaknesses in the review process, the Agency had to perform an additional "special review" to obtain a more accurate accounting of its unliquidated obligations. This special review identified \$26.5 million of open unliquidated obligations that should have been deobligated by September 30, 2000.

EPA's Interagency Agreement Invoice Approval Process

Some EPA project officers did not fulfill oversight duties related to reviewing and approving Interagency Agreement (IAG) invoices. We noted deficiencies in this area in prior reports, and we continue to find instances where project offices at EPA's Headquarters and Cincinnati Financial Management Center (CFMC) did not timely approve IAG invoices because they did not receive the supporting cost information from other Federal agencies to substantiate invoice amounts. Additionally, CFMC continued to use the "first-in first-out" accounting basis (charging the first line of accounting) to allocate costs charged on IAGs with multiple goals/subobjectives, which provides limited assurance that costs were charged to the appropriate goals/subobjectives.

²In late fiscal 1997, the Agency implemented FAS, the Agency's property accountability system, which is integrated with IFMS, the Agency's accounting system.

Documentation and Approval of Journal Vouchers

Journal and standard vouchers prepared by the Financial Reports and Analysis Branch, OCFO, were not always properly documented and approved. While most of the entries appear to be correct, we are concerned about the vulnerability associated with executing transactions without proper supervisory review and approval.

Timely Repayment of Asbestos Loan Debt to Treasury

The Las Vegas Financial Management Center (LVFMC) has not made timely repayments of the Agency's asbestos loan debt to the Department of Treasury. EPA collects payments from loan recipient schools each year but has not made regular repayments to Treasury. The balance, approximately \$6.8 million, represents repayments of principal EPA has collected since fiscal 1997 but has yet to repay, less the amounts paid to Treasury for annual interest.

Automated Application Processing Controls

We continue to be unable to assess the adequacy of the automated internal control structure as it relates to automated input, processing, and output controls for IFMS. IFMS applications have a direct and material impact on the Agency's financial statements. Therefore, an assessment of each application's automated input, processing, and output controls, as well as compensating manual controls, is necessary to determine the reliance we can place on the financial statements.

Attachment 1 of the OIG's complete audit report of EPA's FY 2000 financial statements describes each of the above reportable conditions in more detail and provides our recommendations and Agency comments on actions that should be taken to correct these conditions. We will also be reporting other less significant matters involving the internal control structure and its operation in a separate management letter.

Comparison of EPA'S FMFIA Report with Our Evaluation of Internal Controls

OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, requires us to compare material weaknesses disclosed during the audit with those material weaknesses reported in the Agency's Federal Managers' Financial Integrity Act (FMFIA or Integrity Act) report that relate to the financial statements and identify material weaknesses disclosed by audit that were not reported in the Agency's FMFIA report. This year, for the first time, EPA will report on Integrity Act decisions in EPA's *Fiscal Year 2000 Annual Report*. For a discussion on Agency reported Integrity Act material weaknesses and corrective action strategy, please refer to EPA's *Fiscal Year 2000 Annual Report*, Section III, FY 2000 Management Accomplishments and Challenges.

For reporting under FMFIA, material weaknesses are defined differently than they are defined for financial statement audit purposes. OMB Circular A-123, *Management Accountability and Control*, defines a material weakness as a deficiency that the Agency head determines to be significant enough to be reported outside the Agency.

For financial statement audit purposes, OMB defines material weaknesses in internal control as reportable conditions in which the design or operation of the internal control does not reduce to a relatively low level the risk that errors, fraud, or noncompliance in amounts that would be material in relation to the financial statements or RSSI being audited, or material to a performance measure or aggregation of related performance measures, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our audit did not disclose any material weakness that was not reported by the Agency as part of the Integrity Act process.

As a part of the fiscal 2000 Integrity Act process, the Agency reported the following material weaknesses that relate to the Agency's financial statements:

Information System Security - The Office of Environmental Information (OEI) recognizes that past improvements to its information security program have not resulted in a complete, comprehensive information security program. Therefore, this office is expanding its existing material and Agency weaknesses, Information Systems Security Plans and Cyber Security, to address all security-related deficiencies. Corrective actions are expected to be completed in fiscal 2002.

Construction Grants Close Out - In 1992, EPA designated this area as an Agency weakness, and in 1996 reclassified it as a material weakness due to a concern that lack of Agency-wide attention might result in the loss of resources to properly complete the program. Corrective actions are expected to be completed in fiscal 2002.

Tests of Compliance with Laws and Regulations

EPA management is responsible for complying with laws and regulations applicable to the Agency. As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, as supplemented by an OMB Memorandum dated January 4, 2001, *Revised Implementation Guidance for the Federal Financial Management Improvement Act*. The OMB guidance requires that we evaluate compliance with Federal financial management system requirements, including the requirements referred to in the FFMIA of 1996. We limited our tests of compliance to these provisions and did not test compliance with all laws and regulations applicable to EPA.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion. There are a number of ongoing investigations involving EPA's grantees and contractors that could reveal violations of laws and regulations, but a determination about these cases has not been made.

None of the noncompliances discussed below would result in material misstatements to the audited financial statements.

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Federal Financial Management Improvement Act Noncompliance

Under FFMIA, we are required to report whether the Agency's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. OMB Bulletin No. 01-02, as supplemented by an OMB memorandum dated January 4, 2001, *Revised Implementation Guidance for the Federal Financial Management Improvement Act*, substantially changed the guidance for determining whether or not an Agency substantially complied with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. The document is intended to focus Agency and auditor activities on the essential requirements of FFMIA. The document lists the specific requirements of FFMIA, as well as factors to consider in reviewing systems and for determining substantial compliance with FFMIA. It also provides guidance to Agency heads for developing corrective action plans to bring an Agency into compliance with FFMIA. To meet the FFMIA requirement, we performed tests of compliance with FFMIA section 803(a) requirements and used the OMB guidance, revised on January 4, 2001, for determining substantial noncompliance with FFMIA.

The results of our tests disclosed one instance where the Agency's financial management systems did not substantially comply with the applicable Federal accounting standard. We identified a substantial noncompliance with the SFFAS No. 4 accounting standard for managerial cost accounting. Attachment 2 of the OIG's complete audit report on EPA's FY 2000 financial statements provides a full description of this issue.

In addition to the above instance of substantial noncompliance, we identified two other noncompliances related to reconciliation of intra-governmental transactions and financial system security. However, these noncompliances do not meet the definition of a substantial noncompliance as described in OMB guidance.

Attachment 2 of the OIG's complete audit report on EPA's FY 2000 financial statements provides additional details and provides our recommendations and Agency comments on actions that should be taken on these matters.

Appropriation Law Noncompliance

Disbursements for Multiple Appropriation Grants. EPA is not complying with appropriation law when making disbursements for grants funded with more than one appropriation. Disbursements for these grants are made using the oldest available funding (appropriation) first which may or may not be the appropriation that benefitted from the work performed. Thus, EPA is not complying with Title 31 U.S.C. 1301 which requires EPA to match disbursements to the benefitting appropriation. A January 13, 2000, Office of General Counsel decision concluded that making disbursements for multiple appropriation grants using the oldest available funding first violates Title 31 U.S.C. 1301 and is an inappropriate method of charging, except in limited situations. This issue was first reported in our fiscal 1994 audit. Attachment 3 of the OIG's complete audit report on EPA's FY 2000 financial statements provides a description of the Agency's corrective action plans and milestones.

Prior Audit Coverage

During previous financial or financial-related audits, weaknesses that impacted our audit objectives were reported in the following areas:

- The Agency's process for preparing financial statements, including the Statements of Budgetary Resources, Financing, and Net Cost.
- Complying with FFMIA requirements.
- Reviewing unliquidated obligations.
- Reporting intra-governmental assets and liabilities by Federal trading partner.
- Accounting for the cost to achieve goals and complying with SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*.
- Accounting for and managing Superfund accounts receivable.
- Accounting for and controlling property.
- Recording accrued liabilities for grants.
- Approving payments for IAGs.
- Documenting EPA's IFMS.
- Complying with Federal financial management system security requirements.
- Accounting for payments for grants funded from multiple appropriations.
- Identifying and allocating indirect costs.
- Reviewing Agency user fees.
- Allocating costs to the Superfund Trust Fund.

Attachment 3, Status of Prior Audit Report Recommendations, of the OIG's complete audit report on EPA's FY 2000 financial statements summarizes the current status of corrective actions taken on prior audit report recommendations in each of these areas.

The Chief Financial Officer, as the Agency's Audit Follow-up Official, oversees EPA's follow-up on audit findings and recommendations, including resolution and implementation of corrective actions. For these prior audits, final action occurs when the Agency completes implementation of the corrective actions to remedy weaknesses identified in the audit.

We acknowledge that many actions and initiatives have been taken to resolve prior financial statement audit issues. We also recognize that the issues we have reported are complex, and require extensive, long-term corrective actions and coordination by the Chief Financial Officer with various Assistant Administrators, Regional Administrators, and Office Directors before they can be completely resolved. A number of issues have been unresolved for a number of years.

In response to our inquiries on actions taken by the OCFO to resolve long outstanding audit recommendations, a representative informed us of a number of efforts that were conducted in fiscal 2000. The OCFO continued efforts to stress the importance of timely and effective audit management practices. The OIG and OCFO held a joint meeting with the Audit Follow-up Coordinators to: (1) reinforce their roles and responsibilities, (2) review expectations for audit follow-up, as laid out in EPA Order 2750, *Audit Management Process*, and (3) reemphasize the importance to Audit Follow-up Coordinators in keeping their managers and the OIG informed of progress.

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The OIG will continue to work with the OCFO in helping to resolve all audit issues resulting from our financial statement audits.

Agency Comments and OIG Evaluation

In a memorandum dated February 15, 2001, the Acting Comptroller responded to our draft report. The OCFO generally concurred with our recommendations and has completed or planned a number of corrective actions to implement most of our recommendations. However, the OCFO disagreed with our classifying the process for preparing financial statements as a reportable condition. The OCFO believed that the specific examples depicted are few in number and, in some cases, reflect differences of professional judgement on presentation rather than errors and did not believe the occurrences were serious enough to warrant a reportable condition on the preparation process. Also, the OCFO disagreed with our conclusion that the Agency is in substantial noncompliance with the requirements of SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*. The OCFO believes that the Agency is in substantial compliance with the managerial cost accounting standard and therefore did not agree with our recommendations for corrective action and did not believe that a remediation plan under FFMIA would be required.

The OIG has not changed the classification of the process for preparing financial statements as a reportable condition or our conclusion on reporting a substantial noncompliance with the managerial cost accounting standard.

The preparation process for financial statements, while substantially improved from prior years, still is far from routine. Problems identified by our audit included several issues that would have resulted in a qualified audit opinion. We continue to report this matter as a reportable condition because the process should be routine, and should result in draft financial statements without material errors. To a lesser degree than in prior years, auditors are being used as a quality control mechanism. Accordingly, we believe the preparation process warrants reporting as a reportable condition.

Relative to Agency comments on managerial cost accounting, the Agency did not produce or utilize cost per output during fiscal 2000 as required by SFFAS No. 4. Without an indirect cost policy that provides for full cost of outputs, the Agency cannot satisfy the accounting standard. The goal, objective, and stated purposes of SFFAS No. 4 were not being met.

The rationale for our conclusions and a summary of the Agency comments is included in the appropriate sections of this report and the Agency's complete response is included as Appendix II of the OIG's complete audit report on EPA's FY 2000 financial statements.

This report is intended solely for the information and use of the management of EPA, OMB, and Congress, and it is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Edward Gekosky". The signature is written in a cursive, flowing style.

Edward Gekosky
Divisional Inspector General
Financial Audit Division
U.S. Environmental Protection Agency
February 26, 2001

Audit Report 2001-1-00107

**For more information on EPA's FY 2000
Financial Statements, contact:**

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Ariel Rios Building
1200 Pennsylvania Avenue, N.W. (2733R)
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